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ABSTRACT

This chart book summarizes two volumes in the subcommittee's series, "Studies in Public Welfare." Paper No. 4 (Dec. 22, 1972) explored work incentive and disincentive features in existing and proposed public welfare programs (cash welfare, unemployment insurance, social security, veterans' benefits, food stamps, public housing, and medicaid). Paper No. 13 (Feb. 18, 1974) reviewed research about the work responses of beneficiaries to income support from the Government. In fiscal 1975 the Federal Government is expected to spend about $130 billion on "income security" of Americans, more than double the comparable sum in 1969. Almost four-fifths of these funds pay retirement checks and other social insurance benefits; the rest finances cash welfare, food, housing, and health benefits for the needy. The primary purpose of income maintenance programs is to improve the living standards of low-income persons and families. But this is a complex and dynamic matter. This chart book explores how public welfare benefits can affect fairness and work incentives, reviews available evidence on whether benefits do in fact affect recipients' work efforts, and considers the trade offs in designing programs to strike a balance between reasonable costs and case loads, work incentives, and fair treatment. This book documents the necessity to make choices among competing goals valued by society. (Author/JM)

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STUDIES IN PUBLIC WELFARE

PAPER No. 14

PUBLIC WELFARE AND WORK INCENTIVES: THEORY AND PRACTICE

A STAFF STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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(II)

LETTERS OF TRANSMITTAL

APRIL 11, 1974.

To the members of the Joint Economic Committee:

Transmitted herewith is a volume entitled "Public Welfare and Work Incentives: Theory and Practice." This publication was prepared in chart book form as a short, nontechnical summary of subcommittee Papers Nos. 4 and 13. The chart book analyzes the work incentive issues raised by public welfare programs, examines the benefit levels offered and the way in which benefits are related to income, and summarizes the available evidence on whether welfare programs do affect recipients' self-help efforts.

The views expressed in this chart book are exclusively those of the authors and do not necessarily represent those of the Subcommittee on Fiscal Policy, the Joint Economic Committee, individual members thereof, or its staff.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

APRIL 9, 1974.

HON. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is Paper No. 14, entitled "Public Welfare and Work Incentives: Theory and Practice." This volume was prepared in chart book form as a short, nontechnical summary of subcommittee Papers Nos. 4 and 13 in the series *Studies in Public Welfare*, and it presents the issues and the facts in straightforward terms.

The chart book documents the facts that program benefit levels—singly and in combination—can be competitive with wages, and that the number of programs which reduce benefits as income rises is growing rapidly. It shows that moderate, rationally designed programs, even those supplementing low wages of workers, appear to have little impact on the level of work effort of able-bodied men. But many of our current programs are not rationally designed and require reform.

This volume was written by Vee Burke and Alair A. Townsend of the subcommittee staff. Valuable suggestions were received from staff members Robert I. Lerman, Irene Cox, James R. Storey, Mollie D. Rivers, and Martha G. Grundmann; Robert Harris of the Urban Institute and Richard P. Nathan of the Brookings Institution.

The views expressed are exclusively those of the authors and do not necessarily reflect those of the Subcommittee on Fiscal Policy, the Joint Economic Committee, individual members thereof, or its staff.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

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PUBLIC WELFARE AND WORK INCENTIVES: THEORY AND PRACTICE

By Vee Burke *and* Alair A. Townsend *

Introduction

This chart book summarizes two volumes in the subcommittee's series, *Studies in Public Welfare*. They are Paper No. 4 (Dec. 22, 1972), which explored work incentive and disincentive features in existing and proposed public welfare programs (cash welfare, unemployment insurance, social security, veterans' benefits, food stamps, public housing, and medicaid), and Paper No. 13 (Feb. 18, 1974), which reviewed research about the work responses of beneficiaries to income support from the Government.

In fiscal 1975 the Federal Government is expected to spend about $130 billion on "income security" of Americans, more than double the comparable sum in 1969. Almost four-fifths of these funds pay retirement checks and other social insurance benefits; the rest finances cash welfare, food, housing and health benefits for the needy.[1]

The primary purpose of income maintenance programs is to improve the living standards of low-income persons and families. But this is a complex and dynamic matter. The terms on which help is given, as well as the amounts offered, determine how fair a program is and how well it bolsters the self-help efforts of the poor themselves. Designers of specific plans to help the poor must pay careful attention to both issues—fairness and impact on work.

Fairness of the benefit structure.—Income maintenance programs provide benefits at varying levels for families with varying incomes. How much to offer families at different income levels is a difficult question, complicated by the desire to safeguard work incentives. Even if programs had no effect on work behavior, the fairness question would persist, for differential payments require judgments of need and merit. One might like to provide very high benefits to the penniless, but to keep costs to manageable levels, benefits of such a plan might have to be sharply scaled down for those with other income.

For example, a payment level of $4,200 per year would offer substantial help to a family of four with no other income. However, to keep costs to a reasonable level this plan might have to cut benefits

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*Staff members, Subcommittee on Fiscal Policy.

[1] In addition to transferring income by direct payments, goods, or services, the Federal Government transfers other billions by income tax preferences (exempting from taxation such income as social security benefits, sick pay, disability benefits, unemployment compensation; and permitting income tax deductions for such spending as interest payments and property taxes).

by $4 for each $5 in outside earnings. As a result, a family earning $3,000 would lose $2,400 in benefits and retain $1,800 ($4,200 minus $2,400) to add to earnings. It then would have a total income of $4,800 ($1,800 plus $3,000), only $600 more than it could have received for no work at all. Is it fair to raise the income of a penniless family by $4,200 while increasing the income of a family earning $3,000 by only $1,800? Does $600 more in total income represent too small a financial reward for a family earning $3,000 on its own?

Actual effect on work behavior.—Economic theory leads to the expectation that income maintenance programs will cause recipients to work less than they otherwise would. This is because such programs raise income and because they reduce benefits by some fraction of earnings. However, the actual effect on work behavior is uncertain. If a sizable number of recipients withdraw from work, or reduce work, the result will be a rise in the number of beneficiaries and of program costs, a decline in the money gain of recipients, and probably an outburst of resentment against the program. Thus, it is rational, not punitive, to seek to design and operate such programs in a manner that encourages work by recipients.

This chart book explores how public welfare benefits can affect fairness and work incentives, reviews available evidence on whether benefits do in fact affect recipients' work efforts, and considers the tradeoffs in designing programs to strike a balance between reasonable costs and caseloads, work incentives, and fair treatment. This book documents the necessity to make choices among competing goals valued by society.

WHY CONCERN IS GROWING

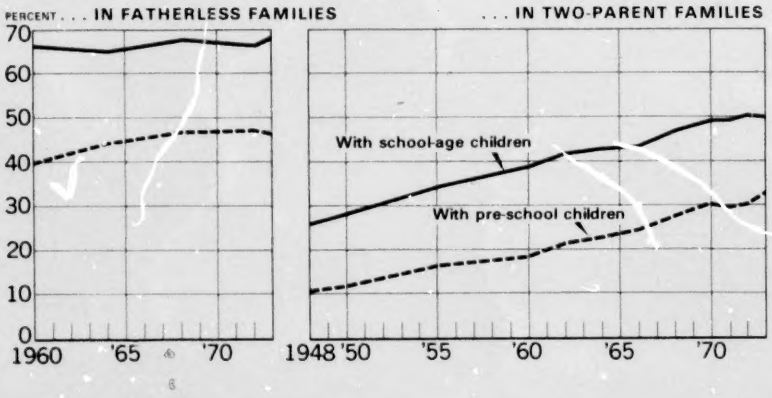
1. Formerly "Unemployable" Groups Are Entering the Labor Force

Many persons in groups once regarded as "unemployable" and therefore deserving of public help are in today's labor force. This is especially true of mothers, who society used to feel *should not* work even if they could. Among two-parent families whose children all have reached school age, one out of two mothers now work, compared with about one out of four 25 years ago (see charts 1 and 2). Among fatherless families with preschool children, almost one-half of mothers work.[1] It is estimated that at least 40 percent of welfare mothers (recipients of Aid to Families With Dependent Children—AFDC) work for some *part of the year*. In one survey *month* of 1971 almost 20 percent were working or in a work-training program. In fact, since July 1969 AFDC mothers have been encouraged to work by a Federal law that requires States to ignore a portion of their earnings when computing family needs and welfare payments.

Chart 1

THE RISE OF WORKING MOTHERS, 1948 - 1973

percentage in the Labor Force

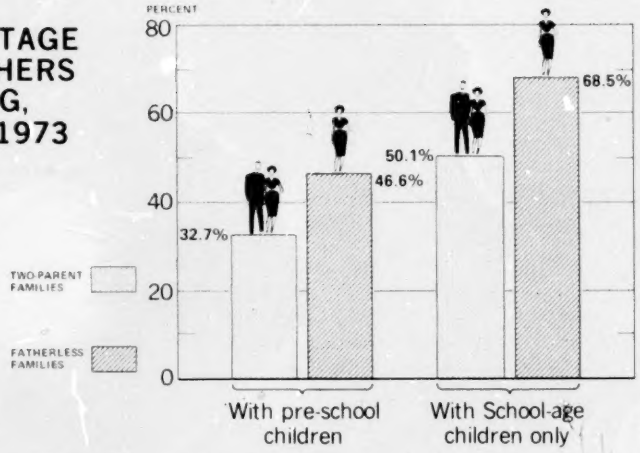


Data apply only to families with ever married mothers; U.S. Department of Labor

[1] Charts 1 and 2 graph the work behavior of *ever-married* mothers in fatherless families because it is for this group that the Labor Department has data. However, other surveys indicate that the work effort of *single* mothers is at least equal to that of the *ever-married* group. A University of Michigan study of families representative of the Nation found that 70 percent of all single mothers worked an average of 1,030 hours (equal to a half-time job year round) during 1971. Of those with a child under 3, 55 percent worked; of those with only school-age children, 73 percent worked. See Jonathan Dickinson, "Labor Supply of Family Members," *Five Thousand American Families—Patterns of Economic Progress*, vol. 1, an analysis of the first 5 years of the panel study of income dynamics. (Ann Arbor: Institute of Social Research, University of Michigan, 1974.)

Chart 2

PERCENTAGE OF MOTHERS WORKING, MARCH 1973



Data apply only to families with ever married mothers. U.S. Department of Labor

Now that work expectations and actual work behavior have changed for groups such as wives and women heading families, programs which benefit them are being reexamined to determine whether they are compatible with the new situation—that is, whether they encourage rather than discourage work, and whether it is fair to exclude other needy groups, such as two-parent families, merely because they are assumed to have a breadwinner.

2. "Employables" Increasingly Benefit From Public Welfare Programs

In the past work incentives were preserved by providing zero benefits to those presumed able to work, thereby presenting a work-or-starve choice. With the exception of public housing subsidies, benefits went only to those neither in the labor force nor expected to join it—the aged, the blind, the disabled, children and mothers in families without an able-bodied man—despite the fact that many workers could not escape poverty by their wages alone. Even today fully employed fathers are barred from federally aided cash welfare, no matter how poor their families.

In 1972, 19.6 million Americans lived in *families* with cash income below the poverty line. Almost one-fourth of these persons were poor despite year-round, full-time work by their family breadwinner. Almost half of the 3.6 million poor families with dependent children were headed by a man. Concern for these working poor families has led to legislative proposals—like the family assistance plan—to provide Federal cash aid to them. This plan died in the 92d Congress, in part because of concern that beneficiaries would stop working or cut down hours of work. That debate and subsequent discussions have obscured the reality that benefits for the able-bodied are growing anyway.

In recent years, for example, the food stamp program has been transformed into the country's only universal income guarantee, available to families of able-bodied men as well as to other needy persons. In July 1974, all counties will be required to operate this program. Also, 14 States plus the District of Columbia (with 35% of the population) offer federally aided medicaid benefits to needy children of fully employed fathers, and at least seven States (with 25% of the population) offer cash supplements to the working poor from State or State-local funds. Twenty-three States and the District of Columbia (with 59% of the population) operate federally aided AFDC-unemployed father programs for able-bodied men who are "unemployed" (defined as working less than 100 hours a month). Other two-parent families benefit from subsidized service and housing programs that are related to income.

To understand the special impact of the food stamp program, consider that this program served 13 million persons in January 1974—one in every 16 Americans (see chart 3). Its costs and caseload are expected to continue to rise dramatically, since the food stamp allotment and income eligibility levels will be adjusted upward semi-annually for food price increases. According to unpublished studies, as many as 60 million Americans might be eligible on income grounds at some time in fiscal 1977, and if all eligibles obtained food stamps, the total cost could soar to $10 billion a year. The number of persons eligible on income grounds in March 1974 was estimated at 37 million, and the peak number expected to be eligible at some time in the year was estimated at 50 million (reflecting fluctuations in income).

Currently (spring 1974) a male-headed family of four without any income can receive an allotment of $142 a month in free food stamps ($1,704 a year). Families with income pay increasing amounts for the same allotment as their income rises; a family of four with annual minimum wage earnings of $3,200, for example, can receive a food stamp bonus (the difference between the amount a recipient pays for the stamps and their redemption value at grocery stores) of $996 per year. Families of four with gross earnings as high as $6,800 are eligible.

Chart 3

GROWTH OF FOOD STAMP PROGRAM, 1968 - 74

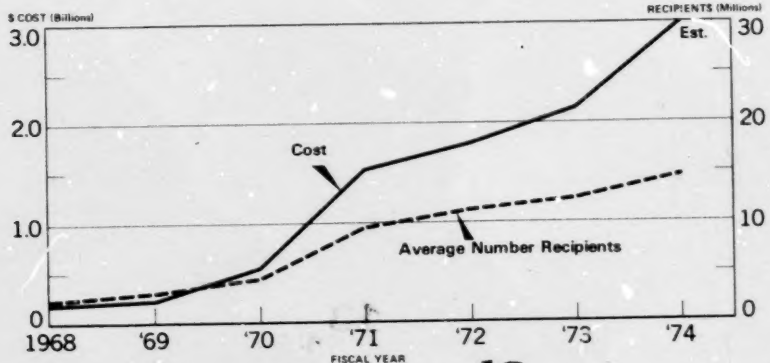
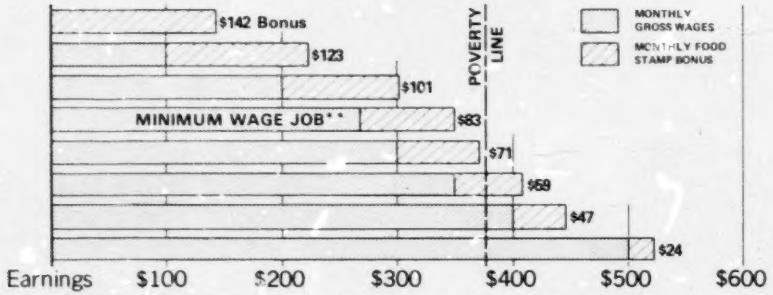


Chart 4

FOOD STAMP BENEFITS AVAILABLE TO WORKING POOR FATHER WITH THREE DEPENDENTS, JAN. 1974



*The food stamp bonus amounts would be higher than shown if the worker had shelter costs greater than 30% of net income or medical costs above $10 monthly.
**Yearly wages of $3200 ($1.60 per hour for 2000 hours).

The food stamp program now provides a larger income guarantee than the original (1969–70) family assistance plan level of $1,600 for a family of four, and offers a significant supplement to the working poor (see chart 4). The extent to which it reduces poverty is unknown, however, since the census does not include the value of the food stamp bonus in official income statistics and poverty counts.

It is imperative to recognize that millions of workers and potential workers already are recipients of "welfare." They receive food stamps, public housing (where available), and, in some areas, State and local general assistance checks, medicaid, and unemployed father benefits (in October 1973, 89,124 families received AFDC–UF). Analyzed one by one, in isolation, these programs were enacted with no scrutiny of how large their combined benefits could be, nor how small their work rewards. Designed without regard to encouraging work, their combined result often is to penalize work. The question today is not so much *whether* or not to extend aid to working people, but how to extend it more rationally.

3. The Number of Benefits Related to Income Is Rising

Public welfare programs have grown rapidly in number, especially those targeted on low-income persons. "Income-testing" of benefits—which provides maximum benefits for the very poor and reduced benefit amounts for the less poor—is an efficient device for concentrating aid on the needy. It limits costs and caseloads. If only a few programs operated in this fashion, they might function reasonably well as a system. But there is a lengthy and growing list of such programs, as set forth in the appendix. And it is not uncommon for families to participate in three, four, or five or more programs, each of which reduces benefits as earnings climb. Such families can receive combined benefits

of substantial value and may suffer sharp benefit losses if they increase income. Multiple benefit programs thus cause work disincentives in two ways, by making possible relatively high actual income guarantees and by heavily penalizing the work of recipients. If a high enough income is available through a combination of programs, life can be made comfortable enough without work to enable recipients to enjoy leisure. If benefits are reduced drastically as earnings rise, little incentive is provided for recipients to seek work even if their incomes are not high enough for comfort. (The choice between more labor income and more leisure to enjoy it, of course, is limited when jobs—or extra hours of paid work—are not available.)

The growth in noncash Government programs for specific "needs" is a matter of significant policy concern. Noncash benefits are popular chiefly because they can be justified in terms of particular goods that avoid the need for choice. In-kind benefits escape debate over the difficult issues of income distribution that generally confront proposals for cash supplements to the poor: fairness, cost, work incentives. When noncash programs are scrutinized on these grounds, however, they fail. The existing array of such programs generally is unfair, costly, and damaging to work incentives. Moreover, there is a long laundry list of remaining "needs" that could be translated into still more Federal benefit programs targeted on the needy. Given recent history, the establishment of clothing vouchers or utility stamps or transportation coupons is not inconceivable. Current income security programs are described in the appendix.

HOW WELFARE PROGRAMS CAN AFFECT WORK

The Basic Program Features

All welfare programs have three basic features.

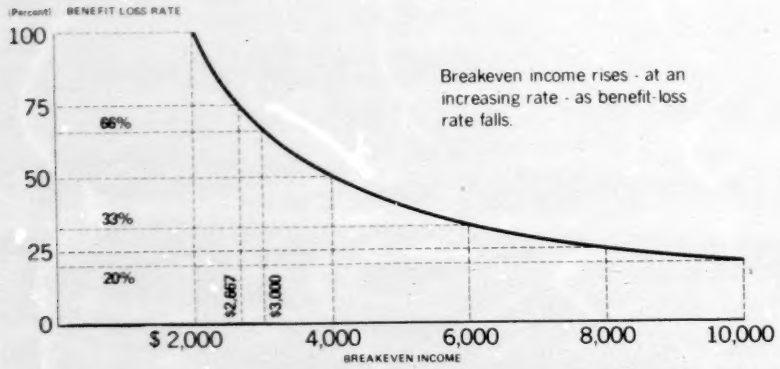
1. The guarantee.—This is the maximum payment made to a person or family with no other income. For instance, the new supplementary security income program (SSI) for the aged, blind, and disabled guarantees $140 a month to an eligible person with no other income.

2. The benefit-loss rate.—This is the rate at which earnings or other income are subtracted from the basic benefit. In the SSI program, for example, the first $85 of monthly earnings (or the first $65 in earnings plus $20 in unearned income) is not "charged" against the welfare payment (that is, the benefit-loss rate is zero). However, 50 cents of every additional earned dollar is subtracted from the SSI check (50 percent benefit-loss rate). In the sense that earnings reduce the benefit, earnings are "taxed," and economists call the benefit-loss rate a "tax" rate because it has the same effect on net income of welfare recipients that income tax rates have on nonrecipients' earnings. The benefit-loss rate reduces the recipient's net gain from work.

3. The breakeven level.—The guarantee and the benefit-loss rate together determine a third feature of a welfare program, its breakeven level. This is the point at which benefit entitlement is wiped out by offsetting "counted" income and one is dropped from the program. Since persons whose income is below the breakeven level are eligible for benefits, the number of potential recipients grows as the breakeven rises. In the SSI program it takes $2 of earnings to offset $1 of benefits. Hence, the breakeven equals two times the basic benefit of $140 per month, or $280, plus an additional $85 in uncounted initial earnings, or a total of $365, for recipients who work.

The breakeven income level varies inversely with the benefit-loss rate. With a tax rate of ⅔ it takes $3 of earnings to offset $2 of benefits, and the breakeven equals ½ times the guarantee plus any other uncounted income. A benefit-loss rate of ¼ has a breakeven income equal to 4 times the guarantee. As shown in chart 5, the lower the benefit-loss rate and the higher the guarantee, the higher the breakeven income. And the higher the breakeven income, the greater the number of persons who qualify for the program.

Chart 5 HOW THE GUARANTEE LEVEL AND THE BENEFIT-LOSS RATE AFFECT THE BREAKEVEN LEVEL



This chart illustrates a program with a basic guarantee of $2,000. With a 100% benefit loss rate, the breakeven is $2,000; with a 66% rate, $3,000; and with a 20% rate, $10,000.

If the basic guarantee were increased by 50%, to $3,000, all breakevens also would rise 50%. Similarly, if the basic guarantee were doubled (to $4,000), all breakevens would be doubled.

The Theory

One can view a person's time as divided among work for wages, work in the home, and leisure, depending on relative opportunities and rewards. The reward for market work is money income, which is ultimately used to buy goods and services. One of the goods that people may "purchase" is leisure, but each person pays a different price, one equal to his own wage rate. Economists theorize that the amount of nonworking time "bought" by a person depends on two factors:

(1) The "price" of his leisure or cost of time for housework.—That is, the wages that he must forgo. The attorney who earns $30 an hour has to "pay" 10 times as much for an hour's leisure as does the $3 per hour factory worker. As a person's wage rate rises, leisure—and housework—become more costly for him. The effect of price changes on a consumer's choices, apart from any effect from changes in income, is called a *substitution effect*. Consumers generally tend to substitute a cheaper item for a more costly one, and when the price of leisure rises they tend to buy less of it. Put another way, more labor is supplied at higher wages.

(2) The amount of nonwage income available to the person.—When a person receives extra "unearned" income such as interest, dividends or rent, he usually reduces work effort because he can afford more leisure. The effect of extra income—including welfare benefits—on a consumer's choices, apart from any effect from price changes, is called an *income effect*.

The two major components of an income support program—guarantee and benefit-loss rate—have consequences for the way a recipient divides his time among market work, housework, and leisure.

The guarantee in a welfare program represents an increase in nonwage income. Whether the guarantee is in the form of cash or food or housing subsidies, it provides extra income. The effect of this income is to enable recipients to afford more leisure as well as other goods.

The benefit-loss rate in a welfare program is similar in effect to a decline in the wage rate, and it influences work behavior in two opposing ways. First, the higher the benefit-loss rate, the steeper the benefit loss per dollar of counted wages, and, thus, the lower the net income at any level of work hours. Hence, higher benefit-loss rates reduce a person's ability to afford leisure time. This is an application of the *income effect*.

Second, the higher the benefit-loss rate, the lower the price of leisure, and of time spent in housework. For example, in the SSI program which cuts benefits $1 for every $2 earned above the initial exempt sum, it is as though the wage were slashed in two. A benefit-loss rate of 50 percent means that the net financial gain from a $3-per-hour job falls to $1.50 an hour. That is, after the benefit is cut, the person has only $1.50 more than he had from benefits alone. A benefit-loss rate of 75 percent cuts the return from a $3 job to 75 cents. Work for wages becomes much less profitable and leisure, as well as unpaid work, much less costly. Hence, higher benefit-loss rates encourage leisure and housework by making them cheaper. This is an application of the *substitution effect*.

To determine the net wage of a worker who does not receive welfare, one must subtract from his gross wage work expenses, social security taxes, and personal income taxes. To determine the net wage of a welfare recipient, one must make still another subtraction—the decline in welfare benefits caused by earnings. After all these deductions, recipients of public welfare benefits sometimes have left only tiny percentages of their earnings.

The total impact on market work behavior of an increase in the benefit-loss rate is uncertain. On the one hand, the drop in income reduces one's ability to afford leisure and encourages extra work. On the other hand, the drop in the price of leisure encourages reduced work effort.

Which of these two conflicting forces predominates, and the size of the net effects, cannot be foretold by economic theory. It can be determined only by analysis of actual work patterns of recipients and potential recipients. If the welfare recipient does reduce market work, his income decline from smaller earnings is cushioned, but not completely offset (except in a program with a 100-percent benefit-loss rate) by a rise in benefits.

The following sections consider guarantee levels and benefit-loss rates in greater detail.

GUARANTEE LEVELS IN EXISTING PROGRAMS

How to judge the adequacy and the potential impact of guarantee levels is a controversial matter. People often measure income maintenance guarantees against the income required to purchase some basket of goods and services designated as a minimum level of "needs." The criterion of needs is difficult to apply because of the somewhat arbitrary nature of deciding how much of what constitutes "need," and it tends to neglect actual living standards attained by low-income nonrecipients.

Program benefit levels vary greatly, depending on such factors as the State's public assistance payment levels, former wage levels for social insurance beneficiaries, the number of programs in which a particular family participates, and family characteristics such as size and sex of family head. Thus, there is not one guarantee for all families of a given size with zero income; instead, there are many guarantees. Judging guarantee levels on the basis of fairness and actual effects on work behavior requires that we examine (*a*) combined benefits from several programs, and (*b*) the gross earned-income equivalent of tax-free benefits.

Chart 6 provides examples from two States of cash and food benefits available to female-headed families of four. They show that the adequacy of welfare benefits for nonworking AFDC mothers depends on the guarantee levels from combinations of programs, not on the guarantee levels of specific programs considered in isolation. These benefits are tax-free and require no work effort. The appropriate figure for estimating work incentive effects was obtained by translating benefits into their gross earned-income equivalents. For this, it was assumed that the worker paid $45 per month in work expenses plus applicable social security and income taxes.

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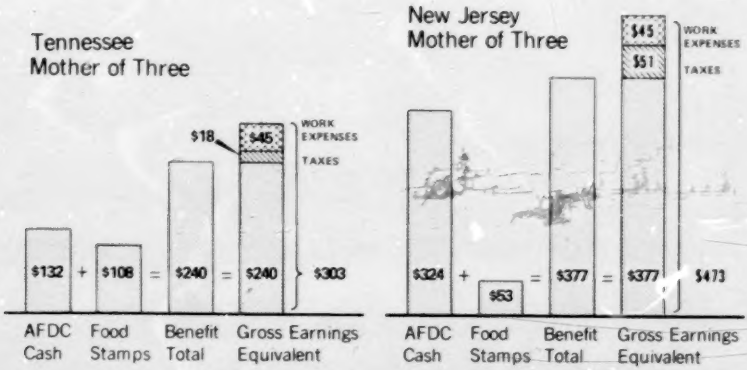
Chart 6

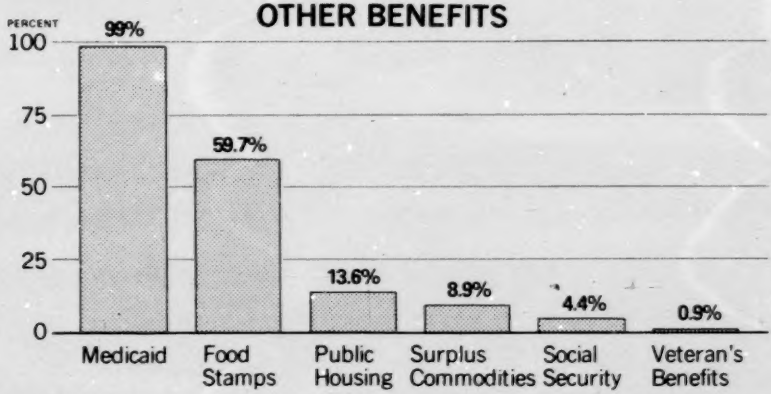
GROSS EARNINGS EQUIVALENT OF MONTHLY BENEFIT LEVELS FOR NON-WORKING WELFARE MOTHERS



Benefits from medicaid, the school lunch program, and public housing push much higher the total benefits received by some families in Tennessee, New Jersey, and elsewhere. The percentage of AFDC families nationwide who receive other benefits is shown in chart 7 below.

Chart 7

PERCENTAGE OF AFDC FAMILIES WHO ALSO RECEIVE OTHER BENEFITS

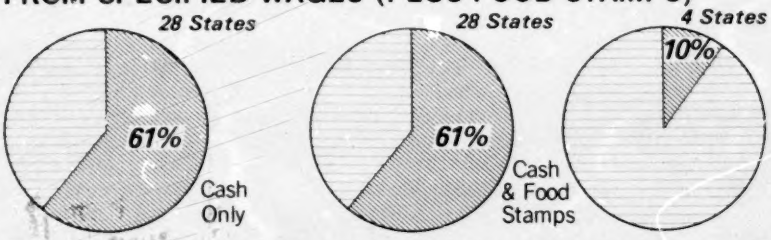


Data for all but Medicaid participation from 1973 AFDC Survey, U.S. Department of Health, Education, & Welfare.

Who gets what depends partly on sophistication and knowledge, State and local decisions regarding program implementation, and size of waiting lists, not simply on formal rules of eligibility. It is possible

Chart 8

PERCENTAGE OF ALL AFDC RECIPIENTS LIVING IN STATES WHERE BENEFITS EXCEED RETURN FROM SPECIFIED WAGES (PLUS FOOD STAMPS)



AFDC cash guarantees* exceed $221 monthly, net earnings from minimum wage job.**

AFDC cash & bonus food stamps exceed $304 monthly, net earnings from minimum wage job plus food stamps.

AFDC cash & bonus food stamps exceed $391 monthly, net earnings from $2.50 per hour job plus food stamps.

*For four persons

**Deducted from gross wages are payroll taxes and work expenses ($30 for minimum wage job, $40 for $2.50 hourly job).

to assemble benefit packages of substantial value to recipients—cash plus consumption items.[1] In some cases these packages have a competitive edge on prevailing wages. They very often exceed the earning capacity of recipients.

Chart 8 shows that 61 percent of *all* AFDC recipients live in the 28 States where the AFDC payment for a family of four exceeds the net pay from a minimum wage job; and 10 percent live in the four States where AFDC plus food stamps exceeds the sum of net earnings from a $2.50 per hour job and food stamps.

[1] For further details and examples, see ***Studies in Public Welfare***, Paper No. 6, "How Public Welfare Benefits Are Distributed in Low-Income Areas," prepared by James R. Storey, Alair A. Townsend, and Irene Cox for the Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C.: Government Printing Office, Mar. 26, 1973); Paper No. 8, "Income-Tested Social Benefits in New York: Adequacy, Incentives, and Equity," prepared by Blanche Bernstein for the Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C.: Government Printing Office, July 8, 1973); and Paper No. 10, "The New Supplemental Security Income Program—Impact on Current Benefits and Unresolved Issues," prepared by James R. Storey and Irene Cox for the Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C.: Government Printing Office, Oct. 7, 1973).

BENEFIT-LOSS RATES

How They Are Computed

The amount of public welfare benefits due a family often depends on their current income. The rate at which income is charged against benefits is called the benefit-loss rate. If one earns an extra $1 but nets only 25 cents because his welfare benefits are cut 75 cents (75 percent of earnings), his benefit-*loss* rate is 75 percent and his benefit-*retention* rate is 25 percent.

It is easy to determine a recipient's benefit amount if one knows both the benefit amount for a recipient without other income (the "guarantee" or maximum payment) and the benefit-loss rate. For example, assume programs that guarantee $2,400 annually to a family of four with no other income. Table 1 and chart 9 show what a recipient's benefits would be at varying earnings levels and under varying benefit-loss rates.

TABLE 1.—*Annual benefits payable under $2,400 maximum payment programs with varying benefit-loss rates, to recipients with varying earnings*

Earnings	Benefits payable under plans with benefit-reduction rates of—			
	25 percent	50 percent	75 percent	100 percent
$0	$2,400	$2,400	$2,400	$2,400
$1,000	2,150	1,900	1,650	1,400
$2,000	1,900	1,400	900	400
$3,000	1,650	900	150	0
$4,000	1,400	400	0	
$5,000	1,150	0		
$6,000	900			
$7,000	650			
$8,000	400			
$9,000	150			
$10,000	0			

Although all four plans above provide the same guarantee ($2,400) at zero income, benefits vary widely at given levels of earnings because the plans charge different proportions of earnings against the guarantee.

To compute benefits payable at a given level of earnings, subtract the "counted" proportion of those earnings (the benefit loss) from the maximum payment made to those with zero other income.

At $1,000 earnings, the $2,400 original benefit is reduced as follows:

100% plan: Benefit-loss=$1,000. Benefit=$1,400
75% plan: Benefit-loss= 750. Benefit= 1,650
50% plan: Benefit-loss= 500. Benefit= 1,900
25% plan: Benefit-loss= 250. Benefit= 2,150

Each of these plans has drastically different effects on total income of wage earners. If the family increases (or decreases) its earnings by $1,000, it gains (or loses) total income of:

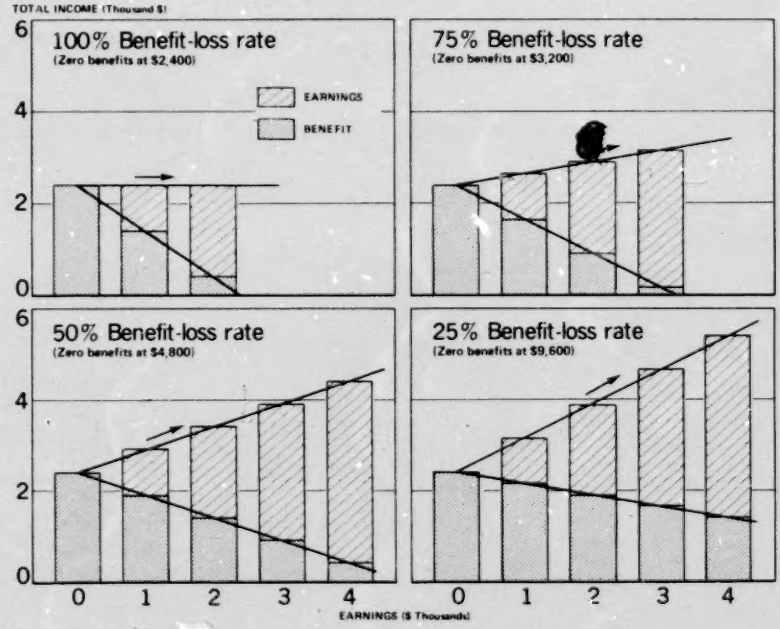
$0 under the 100 percent benefit-loss rate plan;
$250 under the 75-percent plan;
$500 under the 50-percent plan;
$750 under the 25-percent plan.

Thus, benefit-loss rates determine how much a recipient adds to his income when he works and, conversely, how much he suffers financially when he stops working or reduces work. The higher the benefit-loss rate, the less a recipient adds to his income by work, and the less he is penalized if he stops work (since the program makes up a larger portion of the income loss).

Chart 9 illustrates these relationships.

Chart 9

FOUR PROGRAMS WITH AN IDENTICAL GUARANTEE ($2400 ANNUALLY FOR FOUR PERSONS) BUT VARYING BENEFIT-LOSS RATES: THEIR EFFECTS ON TOTAL INCOME



The arrows on the chart show what happens to total income when a program beneficiary (a) goes to work and (b) when he increases earnings. The arrows illustrate the decisive impact of benefit-loss rates. A rate of 100%, holds total income constant (until earnings exceed the basic benefit itself). But as the benefit-loss rate drops, the arrow rises. The lower the benefit-loss rate, the steeper the climb of the arrow.

By retracing the path of the arrows, one sees what happens to total income when earnings are cut back. A benefit-loss rate of 25% imposes a sharp penalty for reducing earnings (for benefits then are increased only enough to offset one fourth of lost wages). But a 100% rate prevents any drop in total income.

Illustrations in Existing Programs

Recipients of current income maintenance programs are subject to a wide range of benefit-loss rates, depending on the particular program or group of programs in which they participate. We examine below the rates at which benefits are "taken back" in selected programs.

It is important to note that actual benefit-loss rates may be lower than stated ones, however. The benefit reductions examined in this volume are derived from laws and regulations and in some cases may not reflect actual practices of State and local agencies. A recent examination by the Department of Health, Education, and Welfare indicates that almost 25 percent of welfare payments nationally are in excess of those prescribed—in part, because of failure to follow the rules for counting income. Income is not always reported fully and promptly by recipients, and program benefits seldom are adjusted immediately (see "Program Accounting Periods," p. 25).

Moreover, stated benefit-loss rates may be much lower than actual rates if net rather than gross income is charged against benefits (see "The Effect of Work Expenses and Taxes," p. 18).

Social security imposes a benefit-loss rate which it calls a "retirement test." Social security annuitants receive full benefits so long as earnings do not exceed $200 a month (zero benefit-loss rate). Such an exclusion from countable income in a benefit program is known as a "disregard" of income. Above these levels marginal rates of 50 percent are applied. That is, each additional dollar of earnings reduces benefits by 50 cents until benefits are fully offset by charged earnings.

Although *public housing* administrators refer to their "rent schedules" to determine what rent is owed by people at various income levels, these schedules in fact are benefit-loss rates. While the benefit—the apartment itself—remains the same if a tenant's income rises, the tenant is required to pay higher rent. Rent schedules and benefit-loss rates vary considerably among local housing authorities, but the Brooke amendment of 1970 limits rent to 25 percent of "net" income, defined as 95 percent of gross income (90 percent for the aged) minus certain deductions. Thus, an extra dollar earned can boost rent no more than 23.75 cents (22.50 cents for the elderly).

Federal day care fee schedules are based on the ability-to-pay principle. Within the day care center, all children receive the same care, regardless of their parents' income. But family income and family size determine the charge the family pays. For instance, head start rules of August 1973, later suspended by Congress, required fee payment from families (with two children) whose gross income exceeded $360 per month, not counting deductions for unusual medical or dental expenses or a portion of large casualty or theft losses. Monthly fees ranged from $2.50 up to a maximum of $135, and benefit-loss rates started at less than 10 percent and climbed to 59 percent.

In the *food stamp program*, the rate is about 30 percent of income net of certain deductions. One thousand dollars more in "net" income will reduce the food stamp bonus by about $300 because the purchase price of the standard stamp allotment will go up by $300.

National rules of the *AFDC program* exempt from benefit loss the first $30 of monthly earnings plus one-third of remaining earnings (a sum equal to $20 plus one-third of *all* earnings) plus expenses. This

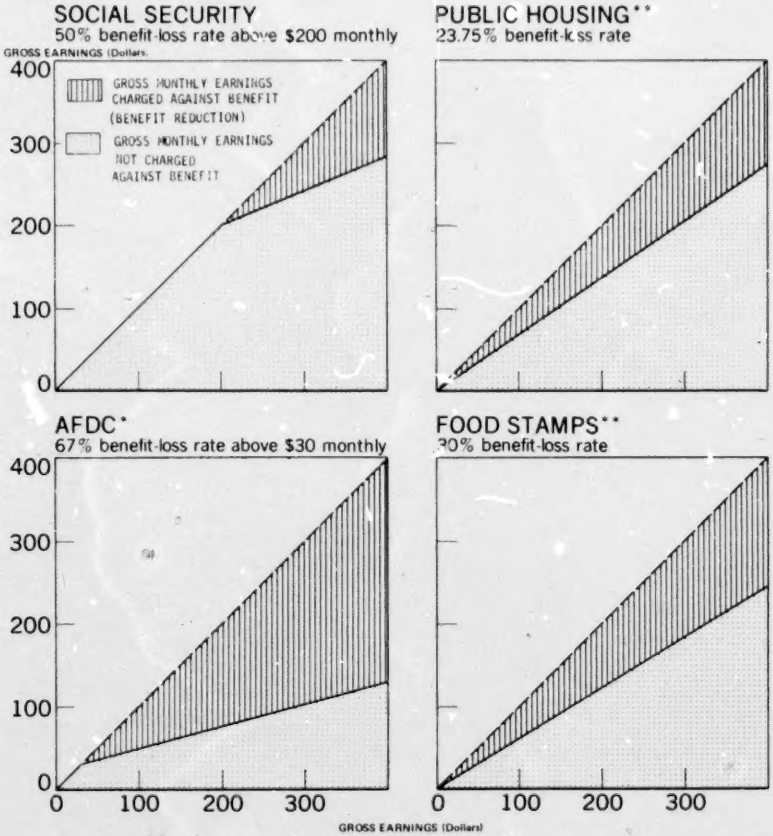
amounts to a ceiling benefit-loss rate equal to two-thirds of all earnings, minus the sum of $20 and expenses. However, 19 States actually apply lower rates by excluding a larger sum from benefit reduction. Maximum AFDC benefits in these States fall short of family "needs" and welfare families are allowed to fill the income gap with earnings. For example, Mississippi, which pays a maximum of only $60 to a family of four, does not reduce this grant until net earnings exceed $220 monthly (equal to $127 of "counted" earnings). Similarly, Missouri, which pays a maximum benefit of $158, permits the family to retain all earnings until they total $299, net of work expenses.

Some programs do not have benefit-loss rates in the standard sense. Instead of having benefits decline gradually as income rises, these programs operate on an all-or-nothing principle. Below a given limit, one receives 100 percent benefits, above it, zero. The food distribution program, known as *surplus food commodities*, works in this way; so does the *medicaid* program in more than half the States. Many *social service programs* also set flat income eligibility limits. This is the equivalent of a zero rate up to the eligibility ceiling and a 100-percent-plus rate just above that point. The rate can be much higher than 100 percent because a small increase in income—say $10—can result in the "sudden death" of benefits far exceeding $10. For example, medicaid benefits (comprehensive coverage which would cost a family at least $500 annually) are cut off abruptly in 27 States when counted income finally exceeds AFDC eligibility limits. The point in a tax or benefit schedule at which an extra dollar of earnings causes a net *loss* is known as a "notch."

Chart 10 graphs benefit-loss rates in some current programs. The dotted diagonal lines show the rise of total gross earnings (from the point at which programs start to "count" them). The striped areas represent earnings charged against benefits, that is, benefit reductions. The charts show that at earnings of $400 monthly, benefit reductions are largest in the AFDC program and smallest in social security. At earnings of $30 per month, benefit reductions are largest in the food stamp program (neither AFDC nor social security counts such small earnings at all).

Chart 10

BENEFIT-LOSS RATES IN SOME CURRENT PROGRAMS



*If the AFDC recipient reported no work expenses, the shaded area would represent her benefit reduction. Any work expenses would decrease her benefit cut by an equivalent sum (for AFDC would reimburse her). In either case, her net gain would equal the unshaded area. Also, 19 States exclude more than the first $30 of monthly earnings (plus expenses) from AFDC benefit reduction and thus lower the effective benefit-loss rate.

**In addition, the food stamp program excludes from countable income: taxes, shelter costs above 30% of net income, and medical expenses if they exceed $10 monthly. Public housing also excludes other items. Thus, for many recipients actual benefit-loss rates are lower than shown here.

The Effect of Work Expenses and Taxes

In judging the impact of benefit-loss rates on work, it is important to examine all factors that reduce take-home pay. The worker, whether or not he receives supplementary income from a Government program, is interested in spendable income. Thus, the appropriate comparison is between (*a*) the net wage of a program recipient after work expenses, taxes, and benefit losses; and (*b*) the net wage he would have

had from work alone. To make such comparisons one must know whether a given welfare program charges income against benefits on a gross or a net basis and which "expenses" are recognized in calculating "net" income. Each welfare program has its own definition of "countable" income. Depending on the way work expenses and income and payroll taxes are handled, the total actual gain from work may be smaller or greater than the apparent percentage of earnings not charged against benefits. In some programs recipients receive a deduction or credit for work expenses, Federal, State and social security taxes, and special expenses such as medical and shelter costs in excess of a given percentage of income.

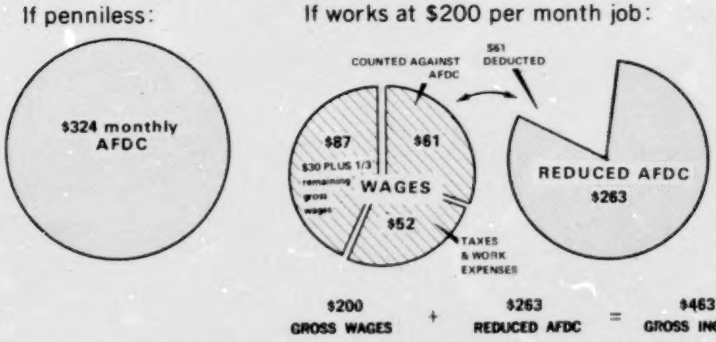
For example, the social security retirement test operates on a gross income basis. Earnings above $200 monthly reduce benefits by 50 cents per *gross* earned dollar. The added $1 thus nets the working beneficiary 50 cents in added gross income. Payroll taxes, however, would cut spendable income by another 5.85 cents; income taxes (where applicable) and work expenses would cut it still further, below 44 cents.

By contrast, the AFDC program charges only *net* income of working recipients against the welfare grant. Not counted is the first $30 of monthly earnings and all expenses reasonably related to earnings, including taxes, union dues, special clothing, food, and transportation. Consequently, the 67-percent benefit-loss rate is usually a ceiling rate—even including taxes and other work expenses—and the value of an extra dollar in earnings exceeds 33 cents when some of the nontaxed "work expenses" actually are savings or consumption items.[1]

Chart 11

"REIMBURSEMENT" FOR WORK EXPENSES SAFEGUARDS SOME BENEFITS: AN AFDC EXAMPLE

Welfare mother of three in New Jersey receives —



If the AFDC rules "counted" the income spent on expenses and taxes, the grant would be reduced by another $52 to $211.

[1] See Robert I. Lerman, "Incentive Effects in Public Income Transfer Programs," in *Income Transfer Programs: How They Tax the Poor*, Paper No. 4, prepared for the Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C.: Government Printing Office, Dec. 22, 1972).

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(Expenses such as work clothes and car payments have elements of consumption.) State practices about deductible work expenses vary considerably, however.

Chart 11 illustrates, for example, how the deduction of work expenses and taxes results in a higher AFDC benefit than would otherwise be payable at a given level of earnings.

The Effect of Program Combinations

To illustrate the bewildering variety of benefit-loss rates, examine the case of a mother with three children in New Jersey. If the woman increased her monthly earnings by $100 (from $200 to $300), the family's net income gain after benefit reductions, taxes, and work expenses, would depend upon which income-related benefit programs it participated in. Assuming work expenses of 10 percent of gross earnings and 1972 tax and benefit schedules, it would achieve the following net gain if enrolled in:

No program	$85
AFDC only	33
Veterans pensions only	41
Food stamps only	44
Public housing only	53
Medicaid only	74

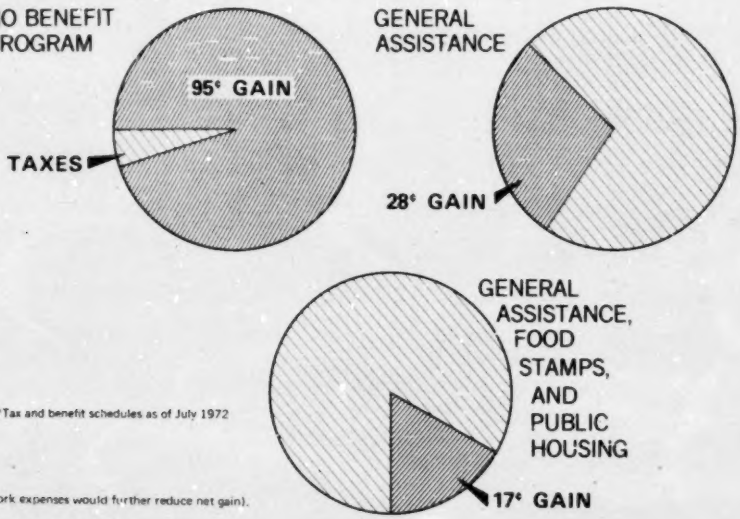
However, the typical beneficiary household is enrolled in more than one program. There is a vast set of programs (see appendix), which base benefits on income or limit them to the "needy." To determine benefit-loss rates facing recipients of multiple programs often is difficult. The rates depend on the income range in question and on the proportion of one program's benefits that is counted as income by another. But, the typical result is that the larger the number of programs, the higher the combined benefit-loss rate and, hence, the lower the net gain from increased earnings.

Chart 12 shows how program combinations can reduce the net income gain that a family achieves by earning an extra $100.

Chart 12

PROGRAM COMBINATIONS CAN INCREASE BENEFIT - LOSS RATE

Income gain* per dollar of extra earnings to two-parent family of five (Essex County, New Jersey) upon switching from half- to full-time job at minimum wage, if family participates in —



*Tax and benefit schedules as of July 1972

(Work expenses would further reduce net gain).

Why Benefit-Loss Rates Are Important

They Determine Recipients' Total Income

Benefit-loss rates under 100 percent increase recipient income and reduce poverty because they enable the needy to supplement benefits by other income.

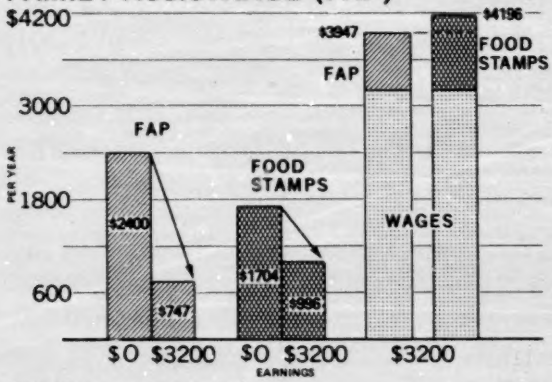
Benefit-loss rates are even more important to program recipients than to taxpayers and Government auditors. A program's generosity must be measured not by its basic guarantee alone, but also by the proportion of earnings and other income which it ignores in computing benefits. Indeed, the benefit-loss rate sometimes can have a more decisive impact on a recipient's total income than the program's basic benefit level. It is possible for a lower benefit-loss rate to more than offset a more generous guarantee. And it should be remembered that most people on welfare have some other income.

Consider the following cases of two men who head families of four persons (chart 13). Assume that Mr. Jones participates in the negative income tax plan earlier advanced by President Nixon (the 1971 family assistance plan—FAP), and that Mr. Smith participates in the food stamp program. Each earns the minimum wage, $3,200 per year. Mr. Jones' $3,200 earnings reduce the basic FAP payment to $747, but Mr. Smith's $3,200 earnings reduce the smaller basic food stamp benefit only to $996. Jones receives a total income $249 smaller

than that of Smith, even though Jones started with a guarantee 41 percent larger. Food stamps are more advantageous than FAP would have been to a worker earning the minimum wage because an added dollar in earnings causes loss of only about 30 cents in bonus food stamps, compared with 67 cents in FAP benefits. The basic FAP guarantee would have to be raised to $2,650 in order to be more generous than the food stamp plan to workers earning the minimum wage.

Chart 13

LOWER BENEFIT-LOSS RATES CAN OFFSET HIGHER GUARANTEES: FOOD STAMPS VERSUS FAMILY ASSISTANCE (FAP)



NOTE: Chart assumes a four-person family.

Earnings of $3200 reduce FAP benefits by $1,653. Earnings of $3,200 reduce food stamp bonus by $708.

RESULT: Despite its smaller guarantee, the food stamp program provides a larger supplement to wages of $3200.

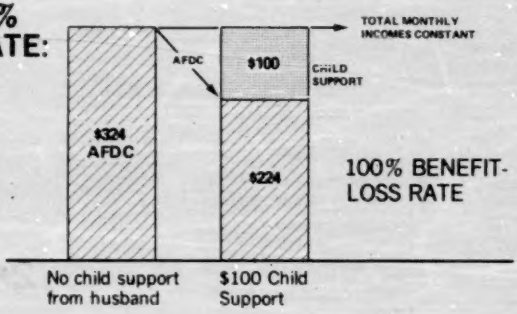
Consider these additional examples, common situations that could be alleviated by more generous treatment of the income obtained by beneficiaries of various programs.

Mrs. Green and Mrs. Howard are AFDC recipients in New Jersey. Mrs. Green receives $100 per month from her ex-husband toward the support of their children, but Mrs. Howard receives nothing from her ex-husband. She receives the State's full AFDC grant of $324 per month. Mrs. Green receives $224 in welfare because every dollar of her child support check is subtracted from her benefit (chart 14). It should not surprise us if Mrs. Green makes little effort to collect child support payments, or does not report such income.

Chart 14

EFFECTS OF 100% BENEFIT-LOSS RATE: CHILD SUPPORT PAYMENTS WORTHLESS TO RECIPIENT

(New Jersey Welfare Mother of three)

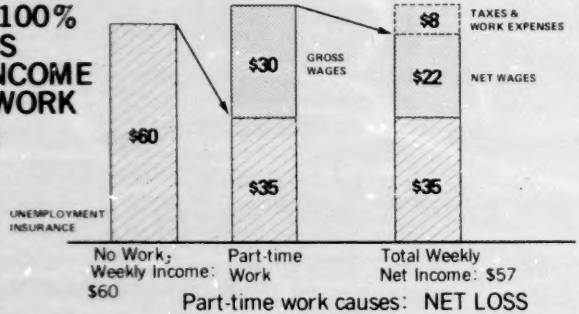


Mr. Schwartz and Mr. Smith are unemployment insurance claimants in Louisiana, receiving the maximum weekly benefit of $60. Mr. Smith's family needs are great, so he does part-time work while hunting a permanent job. He earns $30 a week, only to find his $60 benefit reduced by $25, leaving him a gain of $5. After social security deductions and other work expenses, his gain is wiped out and turned into a net loss. Mr. Schwartz, who did not seek part-time work, comes out ahead (chart 15).

Chart 15

EFFECTS OF 100% BENEFIT-LOSS RATE: NET INCOME LOSS FROM WORK

(Louisiana recipient of Unemployment Insurance)



Almost every American household or family has *some* source of income, however small (such as earnings, alimony and child support, rent, interest, public and private pensions, social security, or unemployment insurance), or opportunities to acquire such income.[2] How such income is treated by an income maintenance plan is of critical importance in determining the amount of income support offered by the plan. The smaller the proportion of "counted" income, the larger the supplementary benefits of programs that start with equal guarantees. Thus, moderate benefit-loss rates can help to reduce substantially the number of poor and low-income persons.

They Affect Fair Treatment of Recipients and Nonrecipients

Although most Americans accept the general principle that persons who work should be better off than those who do not, and that persons who have contributed to public and private retirement pensions should be better off at retirement than those who have not, our income transfer programs often violate this standard. It sometimes conflicts with another principle of equity—that those in equal need should receive equal help.

[2] The University of Michigan study of family income dynamics found that the poorest households (including single person households) received in 1971 an average of $793 in money income, the major identified sources of which were: work, $339; cash welfare, $177; social security, $108; other retirement, $37; alimony, child support, $4; unemployment insurance, $1. Of the households, 51 percent had labor income, 63 percent had transfer income, and 24 percent had capital income (chiefly imputed rent from owner-occupied houses). Income of the poorest households was at least 60 percent below their needs, as determined by the researchers. See app. G, *Five Thousand American families—Patterns of Economic Progress*, vol. 1, an analysis of the first 5 years of the panel study of income dynamics. (Ann Arbor: Institute of Social Research, University of Michigan, 1974).

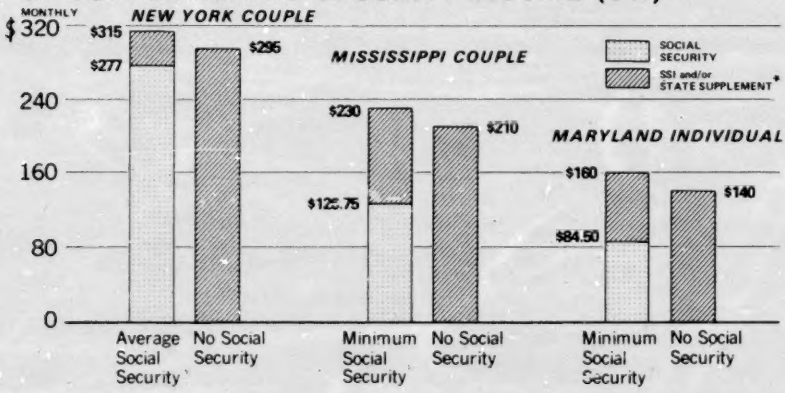
Very high benefit-loss rates—whether from one program or from a combination of several programs—erode the worth of work and thrift, penalize individual responsibility, and weaken the promise that public programs hold out for the retired, the disabled, and the needy. This is illustrated by welfare programs which reduce benefits $1 for every $1 of alimony and child support payments, unemployment insurance, and social security. This 100-percent "tax" on "unearned" income denies any reward from such payments to benefit recipients. Moreover, when high benefit-loss rates are imposed on earnings, the worker is little better off than the nonworker. Consider the following example.

Two retired couples apply for supplementary security income (SSI) in New York. Couple A receives the average social security retirement check of $277 a month, but needs a supplement. Couple B is penniless, and because neither the man nor his wife ever paid payroll taxes, it is ineligible for social security. Penniless couple B is awarded a full SSI grant plus a State supplement—$295 in all. Couple A gets $38, which brings its income up to $315, only $20 above the maximum sum paid to aged welfare recipients in New York.

Under the rules of SSI, only $20 of social security income is not charged against the welfare benefit. Thus, all dual recipients of social security and SSI, like couple A, can have only $20 extra to show for long years of payroll taxes (chart 16 illustrates this).

Chart 16

EFFECTS OF 100% BENEFIT-LOSS RATE: SOCIAL SECURITY WORTH ONLY $20 MONTHLY TO RECIPIENTS OF SUPPLEMENTAL SECURITY INCOME (SSI)



*As of January, 1974.

OTHER FACTORS THAT AFFECT WORK

Recipients' Attitudes

Numerous studies indicate that the poor share the general American work ethic. Like others, they believe in work, consider it to be important to self-respect and the means of self-development. However, the response of the poor to a specific job opportunity, like that of others, will depend on actual conditions—especially the rate of pay and alternative sources of income, if any.

A comprehensive study of the "work orientation" of the welfare and nonwelfare poor [1] concluded that both groups have high aspirations and a strong work ethic, but that this does not assure actual work behavior. The study indicated that those who fail at work feel bad about their failure, but do not lower their aspirations or lose their belief in work. Instead, they play down the significance of unfulfilled goals, lose confidence in themselves, and become more accepting of welfare.

The study found that one factor especially distinguished the nonworking welfare mother from the one who works; namely, a stronger disposition to accept welfare. It attributed this not to lower aspirations or weaker work ethic, but to failure to obtain a "decent job." (At the time—1968 and early 1969—most States deducted all of a welfare mother's earnings from her welfare check, so she lacked monetary incentive to work.) Welfare mothers who failed to obtain a job after training in the work incentive program (WIN) emerged from WIN more resigned to welfare and less confident of themselves than when they entered the program.

The study found that both welfare and nonwelfare mothers, when asked to rank important goals in life, gave very low priority to a "regular" job, and much higher priority to a "well-paid" job. However, no job was so important to most of these mothers as a "husband to support you." Their teenage sons, some of whom had been on welfare all their lives, also put a regular job near the bottom of their goals. The study warned that welfare mothers were transmitting to their sons feelings of inadequacy that would inhibit later work activity.

It concluded that the mothers needed a chance to experience success at work and that there need be no fear that income supplements would cause people to drop out of the work force. The author said the poor were "no more likely" than middle-class people to settle for a relatively low level of income.

Program Accounting Periods

Regardless of the form of the benefits (cash, goods, or services) or of the method of distribution (direct payments to recipients, tax credits

[1] Leonard Goodwin, *Do the Poor Want to Work?* (Washington, D.C.: Brookings Institution, 1972).

or deductions, or payments to providers), most public welfare benefits are adjusted *at some interval* in relation to the income of beneficiaries, as measured over *some time period.*

Although most public welfare programs nominally are related to income, such programs as cash welfare, medical assistance, and public housing contain no explicit rules governing the period of time over which income is to be measured or the frequency with which information on income is to be collected and benefits adjusted.

By contrast, the Federal income tax system—which *collects* money *from* individuals—is explicit on such matters. Taxes are withheld from every paycheck; if wages rise or fall, withholding is adjusted immediately; and, with few exceptions, the final period over which income is tallied is a strict calendar year. The social insurance programs of social security and unemployment insurance also have explicit accounting rules, providing regularized procedures for reducing benefits of recipients whose current earnings exceed specified amounts.

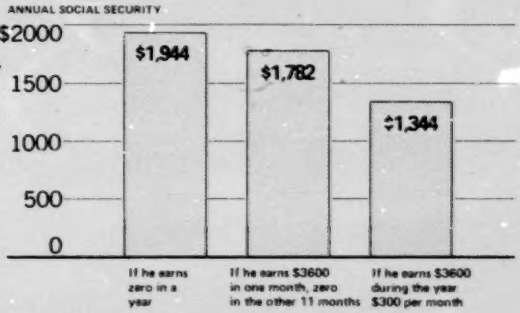
Programs with lax income accounting features have significantly higher overall benefit costs and caseloads because benefits are not adjusted—especially downward—in a timely fashion. One estimate is that AFDC caseloads are at least 22 percent higher and costs 6 percent higher than they would be under tighter income accounting procedures.[2] Loose accounting procedures also undermine equity, for they allow families with fluctuating income to receive considerably higher benefits than other families with equal income that is distributed more evenly over time.

For example, if a social security retiree concentrates all his year's wages—no matter how large—into 1 month, he can limit his "retirement test" penalty to the forfeiture of 1 month's social security check. But if he earns wages evenly throughout the year, his social security checks will be cut by an amount equal to half his gross wages above $2,400 a year, as shown in chart 17.

Chart 17

HOW ACCOUNTING PERIODS AFFECT BENEFITS:

Annual Benefits to a Retired Worker Who Receives the Average* Social Security Benefit



*As of January, 1974.

[2] Jodie T. Allen, "Designing Income Maintenance Systems: The Income Accounting Problem," Paper No. 5 (part 3), *Issues in Welfare Administration: Implications of the Income Maintenance Experiments*, prepared for the Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C., Mar. 12, 1973).

Accounting periods also affect the work incentive features of an income transfer program. A system can base payments on "current need," responding immediately to increases or decreases in need, or it can view income from the perspective of several months or a year. The longer the period over which income is examined: [3]

- the slower the program will be to provide full benefits to someone who has left the work force and the more it will encourage sustained rather than sporadic work efforts; and
- the slower it will be to reduce benefits in response to increases in a recipient's income, thereby softening the initial impact of the benefit-loss rate.

Of necessity, analysts describe and analyze benefit adjustments as if they occur simultaneously with changes in income. But, especially in programs based explicitly on need, they do not. Programs commonly depend on recipients to volunteer reports of changes in income and other family circumstances. Even when regular review periods are specified, these periods may be very infrequent and may unearth income changes that occurred so long before that recovery of excess benefits is difficult or impossible.

For example, public housing rents are generally adjusted upward—if income rises—only once a year, although rents may be decreased more often in response to a drop in the tenant's income. Veterans' pensions also are adjusted annually, but pensions may be increased more frequently to reflect a recipient's worsened circumstances. Immediate pension reductions do not apply to general income increases, but are limited to such events as the remarriage of a widow. Most subsidized home ownership program benefits are adjusted annually or biennially. Unemployment compensation is adjusted more rigorously and more frequently, usually weekly. By regulation, the circumstances of AFDC families must be reviewed every 6 months, and their grants are adjusted at this time. Theoretically, cash welfare recipients are required to report interim income changes, but, like recipients of public housing and veterans' pensions, they are more likely to report changes that will increase their aid than those that will depress it. Income accounting in the new supplemental security income program for the elderly, blind, or disabled is on the basis of the calendar quarter. Rules of the SSI program provide a $25 penalty for failure to report changes in income within 30 days of the end of the calendar quarter in which they occur.

Thus, to the extent that income is not regularly reviewed and benefits are not adjusted, benefit-loss rates are not consistently applied, and work disincentives are reduced at the price of payment error and higher costs.

Work and Training Requirements

Another element that can affect work effort by beneficiaries of welfare programs is the existence and effectiveness of work or training requirements.

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[3] The effects noted below may also depend on the payment adjustment period, a recipient's movement into and out of the program, and the relation between benefit-loss rates and income tax rates.

Programs vary widely in this regard. Most subsidized health and housing programs, for example, impose no requirements; but the social insurance programs of unemployment insurance and disability insurance have firm and established work policies. There are statutory work requirements in the major need-based cash and food programs, but it appears that often they are not strictly enforced.

Below are listed the major programs that impose some type of work requirement, the substance of the requirement, and the penalty for noncompliance:

Unemployment insurance.—Claimant must have prior wages in covered employment, must be able to work, available for work, and must be free of any disqualification (such as discharge for misconduct). Penalty: Benefits are denied to one who refuses to accept suitable work without good cause. Nineteen States disqualify for a specified number of weeks only.

Disability insurance and *supplemental security income* (disability benefits).—Disabled individual must accept appropriate vocational rehabilitation services. Penalty: Disqualification for benefits.

Railroad unemployment insurance.—Claimant must be able to work and available for work. Penalty: Disqualification for benefits for 30 days if one refuses to work at suitable job without good cause.

AFDC.—All AFDC recipients age 16 and over (with certain exceptions) are to be referred to the Department of Labor for participation in the Work Incentive Program (WIN). Penalty: If any recipient certified for participation in WIN refuses without good cause to accept training or employment (an acceptable cause is lack of child care services), that person's portion of the family AFDC grant is to be denied. (In addition, many States have work requirements beyond the WIN provisions of Federal law.)

Food stamps.—All able-bodied members of a household (with certain exceptions) must register for and accept suitable employment. Exempted from the rule are mothers or other persons needed to care for dependent children or incapacitated adults; students enrolled at least half-time in schools or training programs; persons employed at least 30 hours per week; the disabled, and aged. Penalty: If a member fails to register for work, the entire household is to be disqualified from the program for 1 year or until the member does comply. Food stamp recipients cannot be compelled to work at jobs unprotected by Federal or State minimum wage laws or Federal wage regulations unless the job pays at least $1.30 per hour.

General assistance.—Most of the areas that offer locally funded general assistance or "home relief" cash benefits apply work tests of some sort.

It is an important but neglected fact that financial penalties for refusal to comply with the work or training rules of one program can be reduced or wiped out if benefits from other programs then are increased to offset some of the decline in the initial benefit. Even though recipients may be subject to work requirements under several programs, the work-refusal penalty may not be applied consistently in each of the programs.

For instance, the AFDC program requires work registration of mothers whose youngest child is at least *6 years* old, but the food stamp

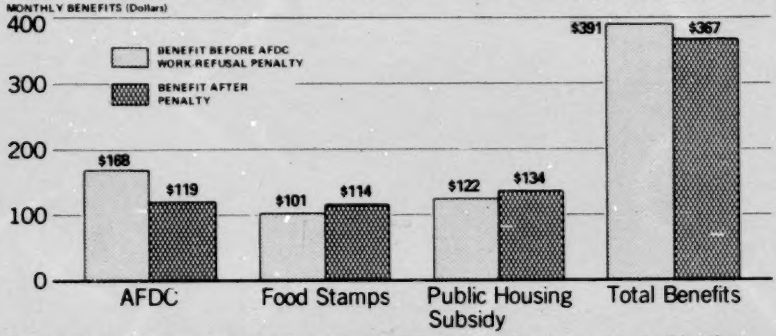
program exempts mothers until children reach *18 years*. AFDC rules require that the mother's portion of the grant be eliminated for work refusal; the food stamp program disqualifies the entire household.

Consider this example (chart 18) of how higher benefits of the food stamp and public housing programs cut the work penalty of the AFDC program. An AFDC mother and 3 children, aged 5, 7, and 9, are eligible for a maximum cash payment of $168 in Maine. Once the youngest child becomes 6, the mother must register for work. Chart 18 shows the consequence to the family's total income that program rules prescribe in case the mother refuses to register for work.

Chart 18

WORK REFUSAL PENALTY CAN BE OFFSET BY ANOTHER PROGRAM'S HIGHER BENEFIT:

Mother and 3 school-age children eligible for a maximum AFDC check in Maine.



Total income is cut only 6 percent. The AFDC decline of $49 is cut in half by the increases in food stamps ($13) and housing benefits ($12).

Are Work Requirements Enough?

Work requirements raise two paramount policy questions:

1. Can work requirements, apart from other program features, assure that those who can work do so?

2. Could such administrative requirements substitute for monetary work incentives in benefit programs?

If potential job placements exceed the supply of available jobs, there is danger that work requirements may be discriminatory and discretionary. Under any conditions, work rules may be inconsistently applied and sanctions rarely imposed. Both concerns may have some factual justification, but there is little information regarding actual enforcement practices.

In June 1973, according to State figures compiled by the Department of Health, Education, and Welfare, the welfare grants of 258 AFDC families were reduced because of refusal of the parent to participate in work or training projects of WIN (work incentive project).

The Comptroller General of the United States, in a September 1971 report about WIN, reported to Congress that the effectiveness of such

sanctions was "questionable." He said local officials were reluctant to reduce relief checks because this penalized the entire AFDC family and was time consuming. The Comptroller General said that in Denver no welfare payments were reduced, despite refusal of 94 fathers to participate in WIN, and that in Los Angeles, despite penalties, 51 of 55 fathers persisted in boycotting the program.

Little evidence or experience supports—and several considerations oppose—an exclusive reliance on administrative pressure and sanctions. First, to the extent that such measures are not uniformly effective, those who freely choose to work or are compelled to do so are treated unfairly relative to those who do not but who receive benefits nonetheless. Second, many people already work and still are poor. If such people receive supplementation which simply fills the gap between earnings and the established supplemental income level, all earnings will reduce their benefits dollar for dollar. This would destroy monetary incentive to work. Finally, work requirements in themselves typically mandate only the fulfillment of minimal conditions. They fail to promote, encourage, or reward the extra effort of second jobs, second earners in a family, or longer work hours.

IMPACT OF PUBLIC WELFARE ON WORK: THE EVIDENCE

The most commonly acknowledged rationale for structuring programs with moderate benefits and with a clear financial gain from employment is to give recipients incentive to work. Such incentives often have been described cautiously as "potential" or "theoretical." There is some evidence, however, that these financial incentives and disincentives to work are real and that people generally recognize them in benefit programs and respond rationally, seeking their self-interest. Examples follow.

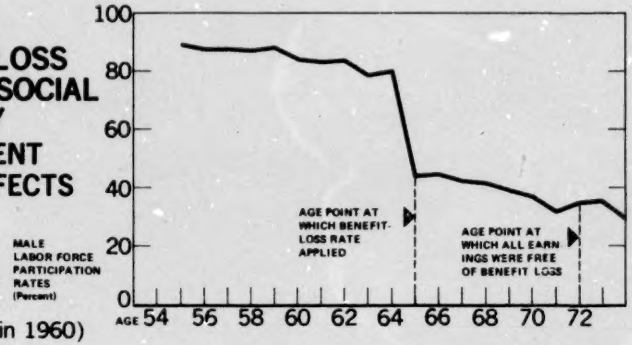
Social Security

The "retirement test" under social security reduces benefits if beneficiaries' earnings exceed a given amount. Above age 72, however, full benefits are paid no matter how much a recipient earns.

One study found that when persons became eligible for social security retirement benefits upon reaching age 65 (in 1960), older men dropped out of the labor force at a precipitous rate. Their labor force participation rates declined steadily thereafter until age 72, at which age there was no penalty for work. Then the work rates increased and later declined again.[1] There being no other compelling reasons for increased work at age 72, the study concluded that the elimination of the "tax" on earnings caused more people to work. Chart 19 plots this.

Chart 19

HOW THE BENEFIT-LOSS RATE OF SOCIAL SECURITY ("RETIREMENT TEST") AFFECTS WORK


100
80
60
40
20
0
MALE LABOR FORCE PARTICIPATION RATES (Percent)
AGE POINT AT WHICH BENEFIT-LOSS RATE APPLIED
AGE POINT AT WHICH ALL EARNINGS WERE FREE OF BENEFIT LOSS
AGE 54 56 58 60 62 64 66 68 70 72
(Survey week in 1960)

In 1965, the amount of earnings exempt from benefit loss was raised from $1,200 to $1,500. In that year, according to a Government study, about 10 percent of both male and female social security retirees increased their earnings from just below $1,200 to just below $1,500.

[1] William G. Bowen and T. Aldrich Finegan, *The Economics of Labor Force Participation* (Princeton, N.J.: Princeton University Press, 1969).

The author attributed the $300 earnings jump to the removal of the "tax" on this sum.[2]

Unemployment Insurance

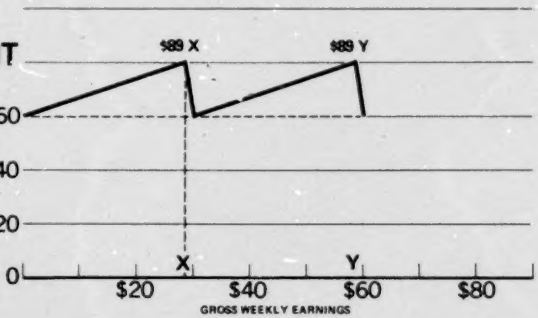
Both types of work disincentives—receipt of income without work and loss of benefits caused by work—have been studied in unemployment insurance (UI). Relatively high UI benefits and high benefit reductions for part-time work may facilitate a longer job search for the most appropriate employment and encourage the most efficient use of skills, two objectives of the program. Nevertheless, the UI program illustrates that benefit levels and benefit-reduction rates can affect work adversely.

In most States, each dollar of earnings above some small amount (such as $5) reduces UI benefits by a dollar. For example, a UI claimant in Tennessee finds that a part-time job paying $200 per month results in a $180 monthly decline in UI payments. In a few States, including Wisconsin, full weekly UI benefits are paid so long as the claimant earns less than one-half of the benefit amount. Thereafter, benefits are reduced to one-half until earnings equal the full weekly UI benefit amount, at which point UI benefits cease. Assuming a UI weekly benefit of $60, these rules are summarized in the graph below. The most financially advantageous situation is X—earnings of just less than half the weekly UI benefit. Next comes Y—earnings just short of the total benefit. At these points, earnings plus benefits equal $89, a larger total than at any point up to $89 in earnings alone.

One study [3] analyzed the distribution of earnings of those filing for "partial" UI benefits in Wisconsin and found that many workers understood this peculiar benefit structure and maneuvered their earnings to maximize their total income. That is, earnings were bunched at point X and, less so, at point Y on chart 20 below. This suggests that these UI claimants could have worked more, but were reluctant to have additional earnings serve only to offset their UI benefits dollar for dollar.

Chart 20

THE UNEMPLOYMENT INSURANCE BENEFIT STRUCTURE IN WISCONSIN



*Assuming weekly U.I. benefits of $60.

[2] Wayne Vroman, *Older Worker Earnings and the 1965 Social Security Amendments* (Washington, D.C.: U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Report No. 38, 1971).

[3] Raymund Munts, "Partial Benefits in Unemployment Insurance: Their Effect on Work Incentive," *Journal of Human Resources* 4 (spring 1970): 160–76.

Aid to Families With Dependent Children

Several studies suggest that the work effort of AFDC recipients, like that of wives in general, is highly responsive to both the amounts of income available from nonwage sources (such as public assistance) and to the rate at which work increases income.

One study found that on the average the employment rates of AFDC mothers among States *decreased* by about 4.5 percent as the annual State AFDC benefit levels *increased* by $1,000, and that a 10 percent *increase* in the benefit-loss rate led to about a 2 percent *decrease* in employment rates.[4] The smaller the initial guarantee, the greater the pressure to work or find other sources of extra income, and, hence, the greater the impact upon work effort of a $1,000 rise in benefits.

Although these results are very suggestive of the impact of program generosity on work incentives, they also may reflect State administrative pressure for AFDC recipients to work. Many of the lower-benefit States are reputed to exert more pressure on recipients to work than higher-benefit States and many of the lower-benefit States also have lower benefit-loss rates. However, the above findings parallel those for modest-income wives from income maintenance experiments and other sources.

New Jersey Income Maintenance Experiment

First results from a recent experiment suggest that income supplements may have little effect on the work behavior of husband-wife families with children. Despite a guarantee that provided income without work and despite a benefit-loss rate that reduced (but did not eliminate) the family's gain from work, husbands did not change substantially their work patterns and wives reduced their hours of work by only moderate amounts.

The New Jersey Income Maintenance Experiment, which ran for 3 years beginning in August 1968, was designed primarily to examine the effects of benefit amounts and benefit-reduction rates on level of work effort of prime-age male heads of intact families. Technically, an income guarantee program that reduces benefits by only a fraction of earnings is called a *negative income tax*. The New Jersey experiment tested eight different plans with varying guarantee levels and benefit-loss rates (no rates above 70 percent). Male-headed families whose normal income was below 150 percent of the poverty line participated in the experiment. Families were assigned scientifically to one of eight experimental groups or to a control group. Control group members received no benefits. No one in either group was required to work.

The findings were that experimental group husbands (those eligible for benefits if earnings were low enough) stayed in the labor force. They worked overall about 2 hours less per week than control group husbands, but their average wage per hour was slightly higher than that of control group members (see chart 21).[5]

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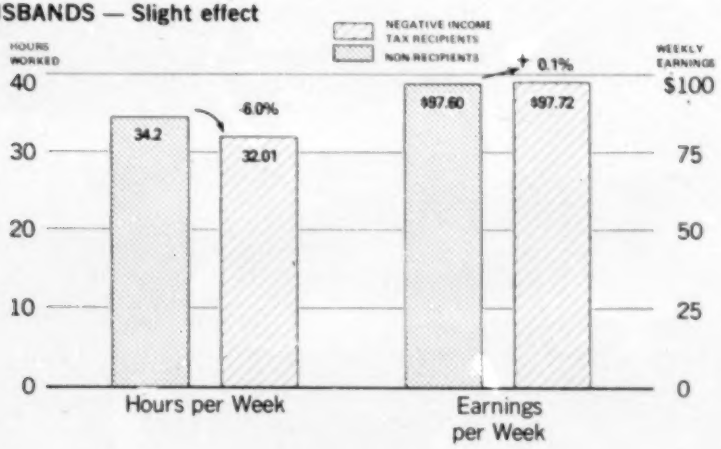
[4] Irwin Garfinkel and Larry Orr, "Welfare Policy and the Employment Rate of AFDC Mothers," Institute for Research on Poverty, University of Wisconsin (Madison), Discussion Paper No. 133–72.

[5] These findings are summarized by Irwin Garfinkel in "Income Transfer Programs and Work Effort: A Review," in *How Income Supplements Can Affect Work Behavior*, Paper No. 13, Studies in Public Welfare, Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C.: U.S. Government Printing Office), Feb. 18, 1974. For a detailed report of the experiment, see *Summary Report: New Jersey Graduated Work Incentive Experiment* (U.S. Department of Health, Education, and Welfare, December 1973).

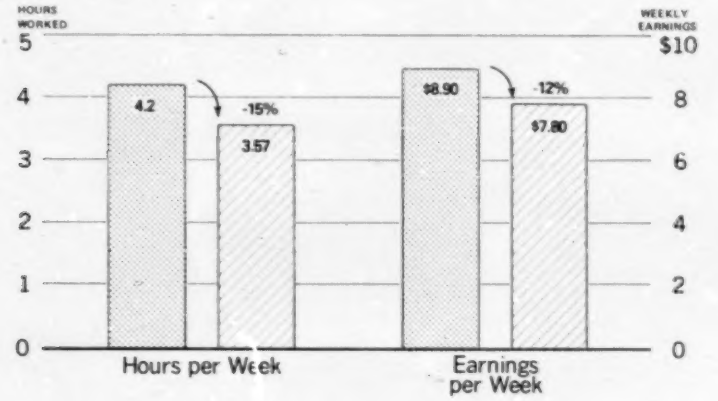
Chart 21

EFFECT OF INCOME SUPPLEMENTS ON WORK EFFORT: NEW JERSEY INCOME MAINTENANCE EXPERIMENT

HUSBANDS — Slight effect



WIVES — Moderate effect



The impact of benefits was more substantial on the work effort of wives than of husbands. Wives in the experimental group worked overall 0.6 of an hour less and earned $1 less per week than wives in the control group—a difference due primarily to a lower rate of employment rather than to a shorter workweek. Although the absolute magnitude of this work difference was small—36 minutes a week—it meant that wives who received supplementary benefits worked 15 percent less than the other wives. As a group, control group wives worked an average of only 4 hours a week—only 30 percent of them worked at all. These results must be interpreted with caution. The experiment lasted only 3 years; and few wives worked, in great part because most two-earner families were ineligible for the experiment since their combined earnings exceeded 150 percent of the poverty line. But, the finding of a negative impact on wives' work activity was consistent with other studies.

The 3-year experiment did not provide conclusive findings for two reasons. First, long-term effects could easily differ from the effects of a 3-year program, since the participants understood that the payments would end after the third year. Second, the States of New Jersey and Pennsylvania already operated rather generous State-funded welfare programs for low-income male-headed families. Thus, both the experimental and control groups had opportunities to obtain welfare cash. If the control group had faced a true "work or no income" choice, the differences in work efforts between the two groups might have been larger. Nevertheless, after taking account of these imperfections in the experiment, analysts continue to find that only small changes in work behavior are associated with experimental payments.

Designers of the New Jersey negative income tax experiment hoped to learn whether varying guarantee levels and varying benefit-loss rates have differential impacts on the work output of beneficiaries. However, no clear pattern emerged, and it is thought that the sample size for each of the eight plans was too small to reflect such differences.

In summary, the New Jersey income maintenance experiment showed only small effect on the work of prime-aged husbands, and a moderate effect on that of their wives.

POLICY CHOICES

Work Incentives and Program Coverage

All benefit programs can be expected to have some adverse effect on work because they increase income—sometimes without work. In seeking to help the needy, we should try to design programs that minimize this effect. Doing nothing for the poor would solve the work incentive dilemma, but only by creating even greater social costs and problems. So the task is to find the best compromise solution—to help the poor the most with the least hindrance to their own self-help efforts.

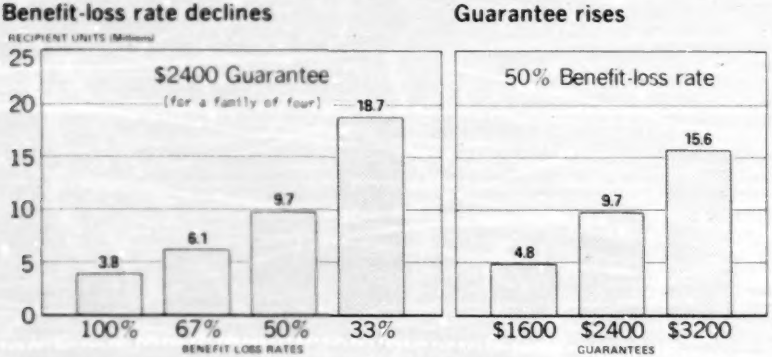
If public welfare benefits cause a substantial decline in self-help efforts, program costs will rise. As we have seen, each income transfer program has two major components—maximum benefit paid (guarantee) and the rate at which earnings reduce it. The higher the guarantee and the higher the benefit-loss rate, the weaker the work incentive. Reducing benefit levels to strengthen work incentives saves money in two ways. Not only does it lower payments, but it also decreases the number eligible for them. On the other hand, lowering the benefit-loss rate costs extra money, even though it encourages more work. This is because a lower rate extends supplements into higher income ranges and thus qualifies new persons for aid. Usually, the cost boost is rather sharp.

Chart 22 shows that small changes in the benefit-loss rate or guarantee cause dramatic increases in the number of program beneficiaries. For example, reducing the benefit-loss rate in a $2,400 guarantee program from 67 percent to 50 percent raises the number of recipient units by 3.6 million. With a 50 percent benefit-loss rate, raising the guarantee from $2,400 to $3,200 increases the number of recipient units by 5.9 million. (Chart 22 assumes no changes in work effort. When work reductions are taken into account, the cost and coverage differences among these plans narrow somewhat.) *These estimates are based on 1966 data. Because of the intervening rise in wages and income, the number of recipients in 1974 would be much lower than these estimates.* The critical point, however, is the relative impact on caseloads of program changes, not the absolute impact.

(36)

Chart 22

THE NUMBER OF RECIPIENT UNITS* CLIMBS AS —



*Recipient units are individuals over 25 years old and any of their children under 18, plus married couples whose head is over 25, together with their children under 18.

Based on 1966 data and estimates of Samuel A. Rea, Jr., "Trade-offs between Alternative Income Maintenance Programs," How Income Supplements Can Affect Work Behavior, Paper No. 13, Studies in Public Welfare, Subcommittee on Fiscal Policy, Joint Economic Committee (Washington, D.C.: U.S. Government Printing Office) January 1974.

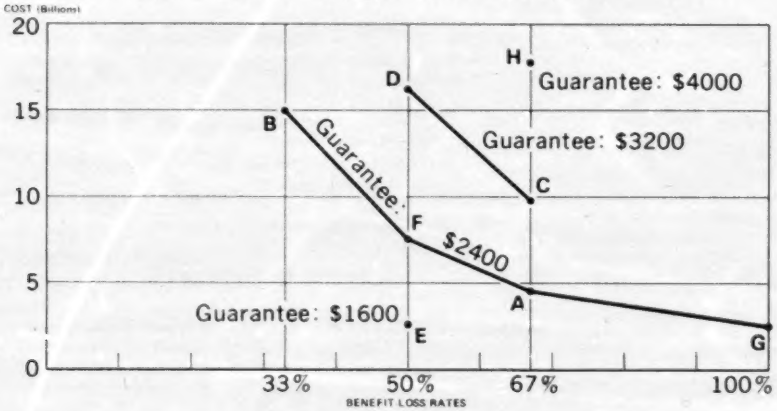
Work Incentives and Program Costs

Chart 23 shows that large cost increases result from relatively small changes in either component of a benefit program. This is partly because more generous terms qualify more persons for a cash supplement. In addition, a higher guarantee is likely to cause a greater reduction in work effort.

The chart indicates that to have raised the guarantee for a family of four from $1,600 to $3,200 in a program with a 50-percent benefit-loss rate in 1966 would have boosted estimated costs from $2.6 billion (point E on the chart) to $16.2 billion (point D). Reducing the benefit-loss rate of a $3,200 plan from 67 percent to 50 percent would have boosted estimated 1966 costs from $9.9 billion (point C) to $16.2 billion (point D). *Because of the intervening rise in wages and income, 1974 costs for such programs would be much lower than these estimates, however.*

Chart 23

THE EFFECT ON GROSS BUDGET COSTS OF VARYING GUARANTEES AND BENEFIT-LOSS RATES: 1966 DATA (Before allowance for reduced work)



	BENEFIT-LOSS RATE DOWN:	COST UP:
Point A to B	1/2	Almost 3 times
Point C to D	1/4	1/2
	MAXIMUM BENEFIT UP:	COST UP:
Point E to D	2 times	6 times
Point A to C	1/3	2 times
Point A to H	2/3	almost 4 times

Based on 1966 estimates of Samuel A. Rea, Jr., op. cit. Guarantees are for families of four.

Net Impact

While one may prefer a program with a higher benefit-reduction rate on the grounds of lower cost and fewer recipients, this may be false economy if the high benefit-reduction rate discourages work. For then the initial estimates will be too low. As people reduce their earnings, the number of recipients will rise above the estimated number and costs will rise.

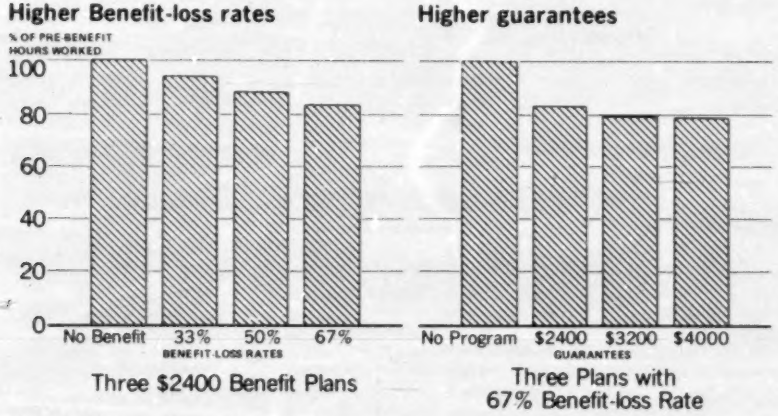
The question becomes one of choosing the best balance so that, for a given expenditure, relatively high benefits and low disincentives result.

The art of estimating a program's impact on work *in advance* is not yet sufficient to lead to confident and exact predictions. Various methodologies yield varied results, although the orders of magnitude are

similar. We present in chart 24 only one set of estimates out of many, to show the general direction and order of magnitude of the impact that benefit programs make upon work. These figures are estimates of what would have happened to labor supply, costs, and program participation in 1966 if a variety of negative income tax programs had operated then. *The estimates are based on 1966 income and labor participation data, and thus program impact on work is greater than it would be in 1974.* Although the estimates were carefully and rigorously prepared, the reader is advised that they are illustrative only. Furthermore, the estimates are largely national in scope and they assume relatively short-run reactions.

Chart 24

HOURS WORKED DECLINE WITH —



Based on 1966 estimates by Samuel A. Rea, Jr., op. cit.

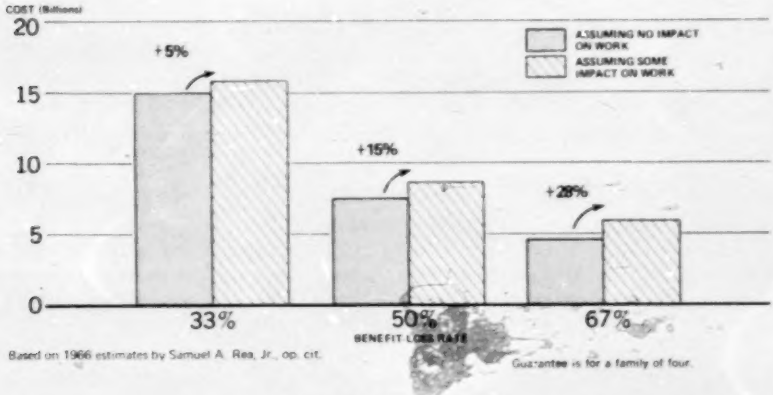
Guarantees are for a family of four.

Chart 25 shows gross budget costs in 1966 for three of these plans, taking account of their impact on work. As the benefit-loss rate is increased, work cutbacks mount, causing increasingly steep rises in cost, as follows: Thirty-three percent benefit-loss rate—5 percent boost in cost because of less work; 50 percent benefit-loss rate—15 percent boost in cost because of less work; 67 percent benefit-loss rate—28 percent boost in cost because of less work. *The same cautions regarding the use of 1966 data apply.*

Chart 25

RISE IN GROSS BUDGET COSTS BECAUSE OF WORK REDUCTION: THE EFFECT OF HIGHER BENEFIT-LOSS RATES

Three $2400 maximum benefit plans



Wage Subsidy Plans

The problem of balancing concerns of cost, caseload, antipoverty effectiveness, and work incentives is inherent in any income benefit program, even in those, like wage subsidy plans, that are limited to workers. A direct wage subsidy program would give a payment to low-income workers equal to a specified percentage of the gap between their wage and a target wage. The target wage in such a plan is the breakeven wage, at which the subsidy is eliminated. For instance, if the target wage were $2 an hour and the subsidy rate 75 percent, a worker would be guaranteed a total wage of $1.50 an hour (three-fourths of the target). If he earned $1, he would receive a subsidy of 75 cents (75 percent of $2−$1) to make his total wage $1.75. If he earned $1.50, his subsidy would shrink to 37.5 cents (a benefit loss of 37.5 cents, 75 percent of the extra 50 cents earned). In this case, although his gross earnings would rise 50 cents per hour, his net gain would be only 12.25 cents.

This kind of program might attract some workers into the labor force by its higher net wage. And because of being conditioned upon work, it might hold workers. However, the increased income provided by a wage subsidy might cause some workers to reduce hours worked, since they could better afford the leisure. It is estimated that most wage subsidy plans (at 1966 prices) would have resulted in a reduction of about 1 to 3 percent in hours worked (and more in plans that failed to count nonwage income).

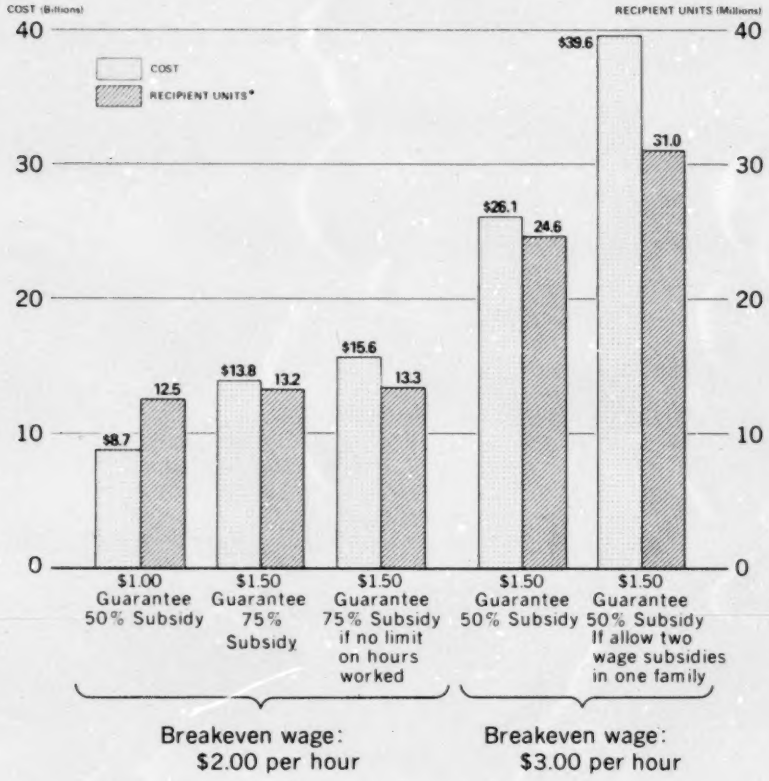
As a wage subsidy rate decreases, the breakeven wage rises into the more densely populated wage brackets—pushing up the number of recipients and the budget cost. A 50-percent subsidy with a $1.50 guaranteed wage means a target wage of $3, and eligibility for workers earning up to $3. A 75-percent subsidy with a $1.50 guaranteed wage means a target wage of only $2, and, hence, eligibility only for per-

sons with wages below $2. When the subsidy rate is raised, the percentage of recipients below the poverty line rises—but the incentive for increasing one's wage rate diminishes because the proportion of earnings to be deducted from the benefit then rises.

Unless eligibility were related to family income, a wage subsidy might pay substantial benefits to those who work long hours but are not poor; if it guaranteed a relatively high wage (by filling in a high percentage of the gap between actual and target wages), it would tax a wage increase heavily—reducing a worker's incentive to look for higher paying jobs and to invest in education and training. Moreover, since a wage subsidy provides no benefits for persons unable to work or to find a job, it would require continuation of current public assistance programs as well as food stamps and the many other benefits based on income need.

Chart 26 gives estimates of costs and caseloads under various wage subsidy plans, all of which relate benefits to family nonwage income. If benefits were not related to family nonwage income as well as hours worked and wages, work reductions would be greater and costs higher. *Since these estimates are based on 1966 data, the above-mentioned cautions apply.*

Chart 26
COSTS AND CASELOADS: WAGE SUBSIDY PLANS



These plans all charge 100% of any non-wage income against benefits.

*Recipient units are individuals over 25 years old and any of their children under 18, plus married couples whose head is over 25, together with their children under 18.
Based on 1966 estimates by Samuel A. Rea, Jr., op. cit.

Trade-Offs in Program Design

Income maintenance programs can be judged for their progress toward several goals, especially poverty reduction, maintenance of work incentives, least budget cost, and enhanced equity. Unfortunately, these objectives are inherently at odds with each other.

Programs with ample benefits for the poor tend to be expensive. Yet programs with very low guarantees fail to meet another objective: the elimination of as many other current welfare programs as possible (ending Federal funding for AFDC and replacing in-kind benefits like food stamps with cash). This objective is important, because unless programs are simplified, consolidated and rationalized, the already troublesome problems of benefit inequities, work disincentives, and administrative complexity will worsen and new programs may be added piecemeal.

A lower benefit-loss rate (or wage subsidy rate) increases the budget cost, multiplies the number of recipients, and gives more benefits to those above the poverty line. A higher benefit-loss rate (or wage subsidy rate) limits benefits going to those with higher incomes and thus is more efficient against poverty, but it reduces incentives for work and is less fair to persons with income.

Allowing more than one wage subsidy per family greatly increases the cost of a wage subsidy. Limiting the size of wage subsidies paid to those with higher wage rates lowers incentives to increase one's wage rate. Limiting the number of subsidized hours reduces incentives to work more hours.

In summary, it is impossible to fulfill simultaneously all the desired objectives. The political process must trade off some progress toward one goal for more toward another. Current programs score low on equity and, for certain groups, on adequacy as well. However, because of the proliferation of benefits related to income, many people now receive combined benefit packages of great value. And because unreasonably high aggregate benefit-loss rates are imposed on their earnings, they are discouraged from work. Indeed, the net gain from extra work under many combinations of current benefit programs is smaller than the minimum that society probably would require in any new comprehensive income support program adopted to replace them.

In the interest of the taxpayer and the poor, hard choices must be confronted with candor, good will, and thought. To bring income maintenance up to date with economic reality, it must be recognized that most of the poor have some private sources of income and that many who work already receive benefits—whether cash, goods, or services. The old dichotomy of work *versus* welfare has become obsolete. A better welfare system must seek to augment and encourage the self-help efforts of the poor, not stifle them.

APPENDIX

Income Security Programs

Federal programs for income security can be grouped according to their eligibility rules about current income: (1) No income rules; (2) limit on wages; (3) limit on wages and on some public benefits; and (4) limit on wages, some public benefits, and on unearned private income. The last group of programs is for the needy only, and it is several times larger than the others.

Federal programs are listed below, arranged by these groupings.

NO LIMIT ON INCOME

These non-income-tested programs can be viewed as providing income security of two varieties: (1) Deferred compensation for past service (examples are civil service and military retirement and veterans' educational benefits); and (2) income transfers from taxpayer to recipient (examples are meals for the elderly and special social security benefits for those over 72).

Medicare (hospital and doctor services).—21 million aged persons and 1.7 million disabled persons had medicare insurance in July 1973. During fiscal 1973 medicare provided hospital services to 4.7 million persons and doctor services to 10.5 million.

Compensation to veterans for service-connected disability.—3 million veterans and dependents, June 1973.

Dependency and indemnity compensation to veterans' dependents for service-connected death.—200,000 widows and 118,000 surviving children, January 1974.

Veterans' housing loans.—305,000 home loans guaranteed or insured by the Veterans' Administration during 1973. Face value of average loan, $25,000. Cumulative total (1944–73), 8.6 million home loans with face value of $101.7 billion.

Veterans' hospital, domiciliary, and medical care (service-connected disability).—Fiscal 1974 beneficiaries of free hospital care, 300,000 veterans (estimate).

Veterans' educational assistance.—A stipend per academic month ($220 for single veterans). Maximum period of help, 36 months, given for 18 months military service; 1.5 million civilian beneficiaries in November 1973 (plus others in military service). Additional cash for tutorial help ($50 monthly) and for dependents ($41 for one dependent, $78 for two).

Vocational rehabilitation for veterans.—For those with at least a 30 percent disability, a subsistence allowance ($170 monthly if single) plus free tuition, books, and supplies. In December 1973, 13,000 veterans attended college, and 3,000 attended other schools under this program.

War orphans' and widows' educational assistance.—For survivors of veterans and for dependents of disabled veterans, a stipend ($220 per academic month of full-time study). In fiscal 1973, 58,000 children and 11,000 wives and widows received benefits (averaging $1,516 per child and $1,185 per widow and wife).

Federal civil service retirement.—1.1 million retirees and survivors, September 1973.

Military retirement (benefits affected by disability payments).—950,000 beneficiaries in fiscal year 1973.

Social security—Special benefits for persons aged 72 and over.—For those without social security earnings record (funded by Treasury); 362,000 beneficiaries, November 1973. Benefits cannot go to recipients of supplemental security income or any Government pension, but are permitted to recipients of workmen's compensation or veterans' compensation.

Federal employees' compensation.—Compensation for job-related illnesses or injuries to Federal workers, their dependents and survivors. In fiscal 1973 direct beneficiaries (workers and survivors) averaged 41,615 per month. Payments to injured workers with families include dependents' allowances. (The Federal Government also administers workmen's compensation for longshoremen and for workers in the District of Columbia; States operate their own workmen's compensation programs.)

Meals for the elderly.—Where available, this new service offers five hot meals per week for those over 60 years old (and their spouses) who are unable to afford proper meals or without ability or desire to prepare them. Regulations prohibit any test of need. In mid-January meals averaged 65,000 daily (expected to rise to 200,000).

WAGE-TESTED

Social security's trio of cash benefits place a limit on earned income for beneficiaries under 72 years of age. September 1973 beneficiaries:

Old-age insurance.—18.9 retired workers and dependents.

Survivors' insurance.—7 million survivors (4.2 million surviving spouses, 2.8 million children, and 25,000 parents). To be eligible, widowers and parents must have received at least one-half of their support from the deceased worker, but this is not required of widows.

Disability insurance.—3.4 million workers and dependents.

WAGE AND BENEFIT-TESTED

Remaining social insurance programs count not only wages but some other public benefits (typically social security and workmen's compensation and, sometimes, unemployment insurance).

Railroad retirement, disability, and survivor benefits.—One million beneficiaries, September 1973.

Federal-State unemployment insurance.—1.3 million recipients, July 1973.

Railroad unemployment insurance.—9,000 recipients, September 1973.

Trade readjustment allowances (for workers displaced by imports).—11,500 beneficiaries in calendar 1973.

Black lung disability and survivors' benefits.—423,000 miners, dependents, widows, and surviving children, December 1973.

TESTED FOR ALL (OR MOST) CURRENT INCOME (WAGES, BENEFITS [1] AND OTHER UNEARNED INCOME)

Programs for the needy offer aid in the form of cash, food benefits, health services, subsidized housing, education aids, jobs and training, social services, and business subsidies.

CASH AID

Aid to families with dependent children.—3.1 million needy families with 7.8 million children, September 1973. States determine payment level and eligibility. Median State guarantee to a family of four was $235 per month ($2,820 per year).

Supplemental security income.—3.4 million needy aged, blind, and disabled persons at start of program, January 1974 (fiscal year 1974 estimate, 5.3 million). SSI Federal guarantee, $140 monthly per person, $210 per couple, rising to $146 and $219 on July 1, 1974 (these amounts are supplemented by many States).

Emergency assistance.—17,882 needy families, August 1973. Benefits sometimes take the form of vouchers for various consumption items.

Assistance to Cuban refugees.—75,500 beneficiaries, November 1973 (but more than half were transferred to SSI in January 1974). Administration plans to phase out program, July 1974–77.

General assistance to Indians.—63,118 average monthly number aided, 1973.

Pensions for veterans (non-service-connected disability).—1.9 million needy veterans and dependents, June 1973.

Pensions for survivors of veterans (non-service-connected death).—1.9 million needy widows and children, June 1973.

Death compensation for survivors of veterans (service-connected death).—200,000 needy parents, January 1974. (Total includes recipients of dependency and indemnity compensation.)

Black lung survivors' benefits.—Surviving relatives (parent, brother under 18, sister) who were totally dependent on coal miner who died without a wife or child; 1,100 beneficiaries, December 1973.

FOOD BENEFITS

Food stamps.—12.5 million recipients, November 1973 (expected to average 15 million in fiscal 1975). Gross income limit, family of four, $6,800 (higher in case of extraordinary rent or medical expense). In January 1974, program guaranteed a minimum monthly income, in the form of food stamps, of $42 to a single person, $78 to a couple, $142 to a family of four.

[1] Federal law forbids treating food stamp benefits as income for tax or welfare purposes.

Food commodities (obtained by the Government in surplus removal and price support operations).—2 million needy members of families; 9 million needy children in schools, 1.3 million needy persons in institutions, November 1973. (Although program rules require institutions to keep records showing how they determine eligibility, a Government survey in 1972 disclosed that 11 percent did not know how the number of "needy" was determined. Between 20–25 percent of the institutions were receiving food for more persons than their number of residents.) Commodity distribution to families is to cease on July 1, 1974, when food stamps are to be available in all counties.

School lunches and school breakfasts.—8.6 million free school lunches and 1.1 million free school breakfasts to needy children, 472,000 "reduced price" lunches and 36,000 "reduced price" breakfasts to near-poor children (plus almost 16 million lunches and 70,000 breakfasts subsidized at a lesser rate, and served to children without regard to income); food service (meals) to 190,000 children in day care centers, settlement houses, and similar institutions, November 1973 daily averages. For children to receive free school meals, pretax income limits in January 1974 were $4,250 (family of four); for reduced price meals, $7,440.

School milk.—Free milk to children in especially needy schools (111,000 half pints, daily average, fiscal 1973). In other schools 13.5 million cartons were sold daily at reduced prices without regard to income of the children. This milk is separate from that included in school lunches and breakfasts. (The new school lunch act requires that the income rules for free and subsidized lunches apply also to school milk. Hence, all children who qualify for a free school lunch will also receive extra free milk as well, provided the school participates in both programs.) In 1973 almost 3 percent of the total nonfarm consumption of fluid milk occurred in school programs.

Special supplemental feeding.—Foods donated by Federal Government for pregnant and lactating women (and infants up to 13 months old) who receive free or substantially free medical care. In November 1973, 151,000 beneficiaries.

Special supplemental feeding for women, infants and children (WIC).—A specific package of foods (financed by cash grants to State departments of health) for pregnant and lactating women and children up to 4 years old who receive free or subsidized health care. In fiscal 1974, first year of program, 216,000 beneficiaries were expected.

HEALTH BENEFITS

Medicaid.—For those on cash welfare, plus in about half the States, the "near-poor" among categories covered by welfare. May 1973, beneficiaries, 7.8 million. During fiscal 1973 medicaid served a total of 23.5 million persons.

Veterans' hospital, domiciliary, and medical care (non-service-connected disability).—Fiscal 1974 beneficiaries of free hospital care, 700,000 needy veterans (estimate).

Comprehensive health services.—For areas with high concentration of poverty and marked inadequacy of health services for the poor. Comprehensive health centers (about two-thirds of which were origi-

nated by the Office of Economic Opportunity), totaled 157 in January 1974, as follows: neighborhood health centers, 64; family health centers, 39; and community health networks, 54.

Family health centers have income cutoff of $5,000 for a family of four, but some of the former OEO centers extend eligibility to $8,400, charging fees as income rises. About 1.2 million persons used the centers in January 1974, their bills paid by: Federal grants, 53 percent; medicaid, 41 percent; medicare, 3 percent; private insurance, public assistance, and private help, 3 percent.

Dental health of children.—Dental care, especially in low-income areas, for children who otherwise would lack care. Projects operated by local health departments. Fiscal 1973 beneficiaries, 10,000 children (expected to double in 1974).

Health care of children and youth.—Comprehensive health care for children in low-income areas who otherwise would lack care. Fiscal 1973 beneficiaries, 504,000 (estimate).

Intensive infant care projects.—First-year health care to very high risk infants who otherwise would lack care. Eight projects in fiscal 1973. (Four of these projects aided more than 7,000 babies in 1972, reducing infant mortality rates, in some cases, by 12 to 20 percent.)

Maternity and infant care projects.—Prenatal and postnatal care, including dental services, for mothers who otherwise would lack care; intensive care for high risk infants. Fiscal year 1973 beneficiaries, 142,000 mothers and 48,000 babies.

Crippled children's services.—Diagnostic and medical care for crippled children. States determine what crippling conditions to treat and how much, if anything, to charge parents with varying resources. The States bill medicaid for qualifying services to eligible children. Federal rules require free diagnosis for all. In fiscal 1972, 513,000 children received physicians' services and 81,000 received hospital services.

HOUSING (GENERAL)

Low-rent public housing.—933,772 units occupied, June 1972. New construction applications suspended in January 1973 (leased housing component of public housing reactivated in September 1973). Local housing authorities set income limits. A Government survey of 25 cities in 1973 found that the income cutoff for admission ranged from $4,700 to $7,800 (family of four), with $5,600 the median.

Homeownership for tenants of public housing (including programs that permit tenants, by performing maintenance labor, to build up "sweat equity" in the unit).—42,000 units, June 1972.

Homeownership loans (sec. 235).—A total of 400,710 units, August 1973 (new applications suspended, January 1973). Insured mortgages and interest subsidy payments for low- and moderate-income families. In general, "adjusted" family income (which is total income less 5 percent, less $300 for each family member under 21 years old) cannot exceed 135 percent of the income limit established for the same size family by local public housing. Median family income, 1972, $6,500. Of families, 13 percent had income below $5,000.

Rent supplements.—A total of 38,751 units, June 1972 (new applications suspended, January 1973). Family pays 25 percent of adjusted

family income for rent, and the Federal Government pays the remainder of rent (at fair market value). In general, income limits are the same as for local public housing. Median family income, 1972, $2,400. Of families, 93 percent had income below $5,000.

Interest subsidies for rental housing (sec. 236).—A total of 60,006 units, June 1972 (new applications suspended, January 1973). Income limits the same as for homeownership loans. Median family income, 1972, $5,300.

Mortgage insurance for low- and moderate-income families (sec. 221(d)(2)).—Loans for purchase of proposed or existing low-cost housing for one to four families or for rehabilitation of such housing. Calendar 1973 total, 47,552 units.

Mortgage insurance for low- to moderate-income families (sec. 234).—Insured loans for purchase of condominium homes. Calendar 1973 total, 3,318 units.

Mortgage insurance for families who are special credit risks.—Approximately 70,000 families received loans in 1973.

HOUSING (RURAL OR FOR SPECIAL GROUPS)

Rural housing loans (sec. 502).—For low- to moderate-income families. Loans to buy, build, improve homes and farm service buildings. Insured loans and, for low-income families, interest subsidy payments. In general, for interest subsidies, adjusted family income limit is $5,000; but exceptions may be allowed to $7,000, and with approval of national office, higher. In fiscal 1973, 109,183 families received loans. From 1950–73 a total of 688,000 families received loans (including some sec. 504 repair loans).

Low-income housing repair loans (sec. 504).—Direct loans for essential minor repairs for low-income rural homeowners who cannot obtain insured loans. In fiscal 1973, 2,596 families received loans.

Rural rental housing insured loans (sec. 515).—For construction, purchase, improvement of multifamily rural housing to be rented to low- and moderate-income persons (except that a building erected for profit may admit a senior citizen without regard to income). In fiscal 1973, loans were made for 8,544 units. Cumulative total (1963–73) 23,633 units.

Farm labor housing (sec. 514 and 516).—Insured loans and grants for housing farm labor (chiefly migrants). In fiscal 1973 program financed housing for 639 families and (in dormitory style) 97 individuals. Cumulative total, 1962–73, housing for 6,965 families and 3,599 individuals.

Rural self-help housing technical assistance (sec. 523).—Grants for nonprofit organizations to hire persons who will train low-income families to build their own homes in rural areas.

Rural housing site loans (secs. 523 and 524).—Direct, guaranteed, and insured loans for purchase of building sites on which families may build their own homes. During fiscal 1972, 552 sites were provided.

Indian housing improvement program.—Grants to needy Indians for housing repair and construction. From 1963–73 a total of 19,653 houses were repaired and 2,787 houses built.

Indian housing technical assistance.—Assistance to enable Indian tribes to develop public housing. Total units, 1963–73, 5,574 for renters; and 9,899 for homeowners.

Appalachian housing program.—"Seed" money (planning loans), site development, and technical assistance for construction of housing for low- and moderate-income persons in Appalachia. Total units built, 1968–73, approximately 3,440. At the start of 1974, 4,160 other units were under construction or in final stages of processing.

EDUCATION (COLLEGE AND OTHER POSTSECONDARY)

Basic educational opportunity grants.—For needy college students and for students in vocational and technical schools. In 1973–74, first year of program, two-thirds of the 250,000 recipients were from families with total annual income below $9,000 (and general income cutoff for family of four was $11,000). Maximum grant was $452; average, $285. Maximum grant expected to exceed $800 in 1974–75 due to increased funding. Federal Government certifies eligibility.

Supplemental educational opportunity grants.—For students of exceptional need. In 1969–70, 73 percent of grants went to students whose family income was below $6,000. Grants totaled 304,000 in 1973–74, averaging $670 per student. Schools determine eligibility. The Nixon administration plans to end this program, replacing it with basic grants.

College work-study.—Jobs for needy students in colleges and approved postsecondary schools (wages paid by Federal Government). In 1969–70, 83 percent of students aided had family income below $9,000. Average earnings of 545,000 students aided in 1973–74 were $580.

National direct student loans.—Three percent loans for students from needy families. (U.S. Government provides capital for the loans, administered by colleges; interest reverts to loan fund.) In 1969–70, 74 percent of loans went to students whose family income was below $9,000. Loans totaled 674,000 in 1973–74, averaging $690 per student. Schools determine eligibility.

Interest-free guaranteed loans (interest paid by Federal Government).—For college students from needy families. Before March 1973, families with "adjusted" income below $15,000 (equivalent to gross income of about $20,000) generally were deemed needy, but new law requires detailed needs analysis of each family. Under the old guidelines, 1.1 million loans were made in fiscal year 1973, averaging about $1,100 per student. In fiscal 1972, one-third of loans went to families with gross income greater than $12,000. Schools determine eligibility.

Nursing education.—Low-interest loans for students in need and outright grants for those in "exceptional" need. In 1973–74, 26,250 nursing students received loans averaging $800, and 19,500 students received grants averaging $1,000. Schools decide students' need.

Medical education.—Low-interest loans for students in need and outright grants for those in "exceptional" need. For students at schools of medicine, osteopathy, dentistry, optometry, podiatry, pharmacy, or veterinary medicine. In fiscal 1972, 31,200 students received loans averaging about $1,000, and 21,600 received grants averaging

$700. Schools decide students' need but funds made available to them take into account the proportion of their students from "low-income" families, as defined by special guidelines higher than those of OEO.

EDUCATION (PRIMARY AND SECONDARY)

Head start for preschoolers from needy families.—Educational, nutritional, and social services for needy children (10 percent may be from nonneedy families, using poverty guidelines of OEO). During fiscal 1973, a total of 379,000 children were enrolled.

Follow through.—Research and demonstration projects seeking to sustain gains from head start through educational, medical, and social services, for children (kindergarten through third grade) from low-income families (OEO poverty guidelines). Low-income children numbering 81,000 were enrolled in January 1974, plus 15,000 who received instruction but not the auxiliary services given to the poor. Program to be phased out, 1974–77.

Upward bound.—Special preparation for college for young people from low-income families (OEO poverty guidelines). Students aided in fiscal year 1973, 28,000 (estimate).

Talent search.—Program to identify talented youths who are needy (OEO poverty guidelines) or culturally disadvantaged, and to encourage them to continue their education. A total of 125,000 students aided in fiscal year 1973 (estimate).

Special services for low-income and physically handicapped students in postsecondary schools (20 percent may be nonneedy).—A total of 74,000 students aided in fiscal year 1973 (estimate).

Vocational education work study.—Part-time jobs for vocational education students who need earnings to stay in school. A total of 130,000 students aided in fiscal 1973 (estimate).

JOBS AND TRAINING

Neighborhood Youth Corps.—Federally funded jobs and training for students from poor families; 1,189,500 students aided in fiscal year 1973. Eliminated as a national program by the Comprehensive Employment and Training Act (CETA), signed into law in late December 1973.

Operation mainstream.—Federally financed jobs for adults with poverty-level income who are chronically unemployed (40 percent must be more than 55 years old); 59,400 aided in fiscal year 1973. (Eliminated as a national program by CETA.)

Senior community service employment.—Jobs for low-income persons 55 or older with poor job prospects. New program. Jobs are to pay at least the Federal minimum wage ($1.60 per hour) and a maximum (about $2.90 per hour) is anticipated.

Job Corps.—Job training, counseling, health care in 65 residential centers. For low-income young men and women, 16–21; 66,100 persons enrolled in fiscal 1973.

Work incentive projects.—On-the-job training and work experience for welfare recipients; 171,400 enrolled on June 30, 1973.

Public service careers.—On-the-job training for low-income and disadvantaged persons. In fiscal 1972, 20,000 jobs. (Eliminated as a national program by CETA.)

Concentrated employment program.—Outreach program that offered to the poor in their neighborhoods one-stop job and training referral service. In fiscal 1972, 130,000 persons aided. (Eliminated as a national program by CETA.)

Manpower development and training.—Classroom vocational skill training for the jobless and underemployed. In fiscal 1972, 150,000 trainees (half with income below the poverty line). (Eliminated as a national program by CETA.)

Job opportunities in the business sector (JOBS).—Subsidized jobs and training for poor persons who are school dropouts; under 22 years old or over 44; handicapped; needy Vietnam veterans; or subject to special employment barriers. In fiscal 1973, 77,800 beneficiaries. (Program sharply modified by CETA.)

Senior companions.—Part-time jobs for low-income persons, 60 or over, to provide supportive services to persons (other than children) with exceptional needs. OEO poverty guidelines for eligibility, with allowance for higher income in high-cost areas. New program. Jobs are to pay the Federal minimum wage. Stipends are tax free and cannot be counted as income by any benefit program.

Foster grandparents.—Part-time jobs for low-income persons, 60 or over, to provide services to children. Participants receive the Federal minimum wage, transportation expenses, and sometimes, lunch. Stipends are tax free and cannot be counted as income by any benefit program; 10,258 persons enrolled in September 1973.

Career opportunities program.—Jobs for low-income community residents and Vietnam veterans as teacher helpers and other paraprofessionals in schools (in areas with highest concentration of low-income families). Approximately 13,500 participants in January 1974.

Vocational rehabilitation services.—Vocational training, medical and physical restoration, counseling, and job placement for mentally and physically handicapped persons. States determine eligibility and how much, if anything, to charge for services. In fiscal 1974, 1,290,000 were aided (of whom 375,000 were "rehabilitated" to useful or remunerative work). One of five beneficiaries was a recipient also of cash welfare.

SOCIAL SERVICES

Services to needy families on welfare (and to former and potential welfare families).—Services include counseling (money and home management, child development, family planning), day care, homemaker services, health care. In fiscal 1974, 5,040,000 families with 14,600,000 children are expected to receive one or more services.

Services to needy aged, blind, or disabled.—Homemaker service, chore services, assistance in getting medical care, and similar aid. Current, former, and potential recipients of SSI (and State welfare) are eligible. Fiscal 1974 beneficiaries expected to total 2.1 million.

Legal services for the poor.—Local communities set income rules. In the District of Columbia, for example, a family of four was eligible

in January 1974 if take-home pay were less than $120 per week ($6,240 per year)—higher with extraordinary expenses. For a single person the limit was $70 per week. In early 1974, 1.2 million persons were being helped.

BUSINESS AID

Economic opportunity loans.—Direct or guaranteed loans and advisory services to enable persons of low income to establish, preserve, and strengthen small businesses. In fiscal 1973, a total of 7,662 loans were made. Cumulative total (1964–73), 41,895 loans with face value of $595 million.